AMERICAN PROSPERITY
Its Causes and Consequences

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BY

PAUL M. MAZUR

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An Essential Word of Explanation

BEFORE joining the large list of self-appointed commentators, critics, and mentors who impose themselves and their ideas upon an already overburdened American business public, perhaps an apology and certainly an explanation is necessary.

We who are bankers are afforded an opportunity to sit beside the highway of business and watch the caravan of industry pass. We see it reach the end of the known road and strike boldly across the broad and unmarked plains of the unknown future. Sometimes we are called upon to put our shoulders to the wheel of a business vehicle that has skidded from the road and become frozen in the mire of difficulty. Sometimes we are in a position to accelerate the speed of progress of some particularly aggressive driver in the ranks of this big parade.

For the most part, however, our relationship with the operating details of business is indirect. But even such an indirect contact affords an opportunity for watching and interpreting, unhampered by the day-to-day mass of problems that require immediate solutions. To us is given the opportunity of hearing discussions of problems

and policies. We see those policies as they are formed, and we can note their results in the unfolding picture of the institution's progress. A natural curiosity will force us to find, if we can, the underlying causes of problems and policies and to trace the possible consequences.

To me as an individual observer at this dramatic roadside, there has come the firm conviction that modern economic conditions and even principles are the results of the thoughts and actions of business men. It may well have been that the economic conditions of Europe a century ago, or more, were determined or at least modified by the economic theses of Smith, Ricardo or Mill. But in America the forces of business have moved too fast for the building of an effective industrial philosophy upon the theories of even the best informed of our economists. The science of Political Economy traces the forces that have been at work. It builds its picture upon the established order, only to find that order swept away by the flood of new business actions modifying old forces and creating new ones.

That business, and particularly American Business, has undergone a radical, even revolutionary change must be clear to the most casual observer. Students from the whole world are industriously studying us through the magnifying glasses of their own prejudices and probing within our industrial machine to discover what makes its

wheels go round. We are a prosperous nation, and our prosperity seems to baffle those who would find a key to it.

Nevertheless there must be some key. If the conviction that business men make economics is sound, then it seems reasonable to assume that the causes and consequences of this present economic day must be found in those factors which influenced and motivated the actions of American business men.

It is in the practical workshop of American economics and not in the academic laboratory that the analysis of business can be best made. In the plans and actions of American business—and not in the qualitative or quantitative analysis of those plans and actions—are locked the secrets to the American present and the basis for predicting the economic future. If the future is to witness changes in our economic structure, then those changes will be based upon the problems which business has already created and is creating today; and everyday business at present actually is creating some intensely interesting problems for future solution.

To the business man the study of the past, present, or future is not based upon a comprehensive analysis of the vital statistics of economic trends or upon the principles of abstract economics. The theory of rent and the theory of the marginal buyer are not likely to be integral

parts of the "new business program" of industrial councils. Production conditions, sales plans, and reduction of overhead, on the contrary, are more certain to come up for consideration in the meeting rooms of business executives.

It has seemed to me that the possibility of tracing the forces of business economics, recently unleashed, will be enhanced if the search is made along the roadway of business and not from some isolated library. Perhaps such a point of view may seem invalid to some; nevertheless it is the motive which prompted the writing of this book.

Here will be found a non-statistical, non-academic observation of the forces that business has evoked, the conflicts that exist between them, and a guess as to the outcome. The only materials used have been my observations of business methods.

I realize fully that no discussion of economic forces should be altogether isolated from the social question that may be aggravated or even created by them. But the subject of society is so intangible and so difficult that it has seemed better to leave a gaping hiatus, that may be covered by someone more competent to do so, rather than to enter into a lengthy discussion of the social aspects of American industrial growth. It may or may not be

true that our physical progress is *prima facie* evidence of our spiritual retrogression. The controversy is beyond my knowledge. Let those who really know, handle this heavy case of high explosives. It is to American industrial development that I would—at least in this volume—direct my entire attention.

The selection of a title has been a difficult matter. I have chosen "American Prosperity, Its Causes and Consequences." I realize, of course, that my title is not true literally. I have not proven prosperity, though I think others have. I do not trace all of its causes nor all of its consequences. I touch lightly on some of both. But you will discover among other things that I believe in exaggeration in advertising; and since a title has largely an advertising function to fulfill, I believe there is some justification in my exaggerated title.

The use of the word "prosperity" is likely, indeed, to arouse a good deal of contention in certain circles. The socially minded will no doubt shake their heads in violent disapproval. "How," they will ask, "can you speak of prosperity when the miners are having such a hard time of it?" They are, in addition, likely to confront the author with statistics to prove that the average American worker earns less than they have calculated he needs in order to live in comfort and security. Some textile and

some clothing business men, also misunderstanding the point taken, will probably swell the chorus of Nays. And in this demonstration the farmer may join them.

No matter, however, how strong in his particular grievances the dissenting economist or business man may be, one point he does not dispute. No one denies that the total income of the nation is greater than it has been in any previous period.

This condition alone is relevant to the contentions of the book. No matter in whose hands the buying power of the country rests, that buying power is greater now than ever. No matter if one or more industries are suffering from a temporary relapse, industry as a whole flourishes on a larger scale than ever before. A consideration of the character of the division of income may be interesting and, from a social point of view, important, but such a consideration would divert the stream of discussion from business to sociology; and a treatment of the conditions of particular industries would enlarge this book greatly, and probably obscure its thesis.

American prosperity in the special sense—and from the point of view of business, correct sense—in which it is used here is practically unquestioned, and requires no proving on my part.

My thesis is offered not as the last word on a complicated subject, but in the hope that it is only an opening

sentence to the real volume on fundamental business economics that business leaders, themselves, will some day write.

PAUL M. MAZUR

Lehman Brothers,
New York City,
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CONTENTS

AMERICAN PROSPERITY

Its Causes and Consequences

I

Links of Change

SOME nations—living and dead—have written their histories in words of blood and with swords as pens. Others have built their sagas across the tables of diplomacy or in the dark corners of political intrigue. But America wrote the opening chapters of her autobiography with the ploughshare and is now tumbling the pages of her history out of the humming wheels of her industrial mechanism.

There is no reason to believe that the major part of American history will be created elsewhere or will come from some other source. Industry is too definitely the marrow of our thought and outlook, too subtly interwoven with the fibres of our survival, to play a secondary role. As business changes—and business will change—American history will change also.

This present year of 1928 gives promise of great industrial activity and even prosperity. But American history is not to stop with the next New Year's Eve. The road for the future years stretches on and on—an endless vista in which nothing is absolutely certain except the

succession of the years themselves. We can be definitely sure that 1929 will follow 1928; what each year will bring can only be guessed.

But the guess does not necessarily have to be wild or completely haphazard. At the least, a reasoned guess can be made. 1928 is the temporary culmination of the years that have gone before. Years are man-made divisions that mark, for convenience, periodic fragments of the continuous flow of time. Change knows no dates. It is forever at work building its new structure upon the edifices or ruins of the past.

America has undergone great changes. There seems to be little in common between the America we know and what it must have been when Forty-Second Street was a farm and every Main Street a cow path. But the decisions that business men were making in even those far-off days initiated forces and created conditions that write themselves into the diaries of today's business.

America is yet to undergo great changes. There will be little in common between the traffic-jammed streets of today and the traffic-jammed air of a tomorrow fifty years from now. But the problems and forces which modern business has created and is creating will leave their imprint upon the pages of those distant days.

When on August 5, 1914, the European War became

a fact, it let loose forces of disintegration that went far beyond even the holocaust of death and destruction of the war itself. And when the guns were silenced on November 11, 1918, their echoes ceased only on the battlefields.

Many changes occurred and were noted; but still the most important of them has perhaps had the least attention. Realignment of boundaries, political upheavals, labor troubles, changed social standards—all these are obvious and will find their natural adjustment. It is otherwise, however, with the economic change that has come upon the world. Least understood because most insidious, most important because basic, it promises to continue to increase in importance and significance as the forces created or accelerated by the World War gather momentum. Economic change is intrinsically a continuous process. In its present aspect, it antedates the war by several generations. In Europe it has, for the most part, been a leisurely stream; in America it has been a torrent. But alike in America and Europe its speed, form, and significance have been distinctly revolutionized by the late war.

It is possible, of course—it is, in fact, probable—that the conditions which exist in industry today would have evolved without the impetus of the war. But certain it is that without the war the conditions of today would have

been the order of a day many decades, if not centuries, removed. The war concentrated into a few years the slow fruition of decades of peace; and the process that was a tendency in the years before 1914 was an accomplished fact by 1925.

Relative geographic isolation and a late entry into the war combined to relieve America of much of the sacrifice of life, wealth, and social stability that was Europe's fate. Except for her increase in wealth, America was, indeed, in the layman's vision only lightly touched by the war itself.

The war, however, has not really left America unscathed. Economically, America has undergone and is likely to undergo a further change that is, indeed, as great or even greater than the lot which is Europe's. Europe will in due time rehabilitate her old economic machinery. America's pre-war economic basis is, on the contrary, relatively obsolete, and Amercia must consequently find new ways and means. Europe's problem is that of the man whose farm and workshop have been destroyed and whose family demands the prime necessities, food, shelter, and clothing; whereas America's problem is that of the potentate who must not only maintain but even increase the magnificence of his palace and whose family demands all the furbelows and gewgaws that

had once been luxuries but have now become necessities.

From the sociological point of view America's problem may be considered petty as contrasted with that of Europe. But men's actions are prompted by personal desires, and not by abstract social formulas. To the American business man and to the American laborer industrial supremacy and the wages which allow a high standard of living have become birthrights to be as jealously guarded as Europe's right to economic rehabilitation and a mere living wage. Europe's condition must and will improve. Her problems, it is true, are many, but they can and will be solved. The belt that is drawn to the last notch may be indicative of an unsatisfied appetite, but it is also a clear indication of a nation's as well as a man's utmost determination to survive.

Meanwhile, America has loosened the belt. Her problem, as far as it affects a majority of the people, really lies in filling the maw to fit the belt and not in drawing in the belt to fit a shrinking waistline. American industry, in other words, has the odd problem of feeding those who are not hungry; of clothing those who are already warmly clad. Her problem may, therefore, seem to be a "high grade worry" indeed; but actually it is a very serious matter. The factory system, which is built to produce millions, depends upon those millions for

profits. A relatively small decrease in production, it should be clear to all, measures not the difference between excess profits and big profits, but the entire difference between profit and loss. It is a difficult problem we are facing—unique in history.

II

Evolution of Production

IF Methuselah, trained to observe modern business methods, could have spent one hundred and fifty years of his life associating with American business leaders, his biography would have been an invaluable historical possession and an accurate chart of future possibilities. To replace such a supposed experience with a modern point of view that vaguely reaches backward is to choose, at best, a poor substitute. But it is in an analysis of the growth and development of American industry that the cause of present conditions will be found.

Although "industry," "production," and "distribution" are terms completely commonplace, there exists for them, nevertheless, a variety of definitions. As an accurate interpretation of the word "industry" is not essential, so long as people generally make industry and business synonymous, it is necessary to assign descriptive labels only to "production" and "distribution." Simply, for clarity's sake, "production" is defined as the conversion of raw or semi-finished materials into products ready for consumption, and "distribution" is defined as the market-

ing of those products, including their sale and delivery to the ultimate consumer.

Fundamentally, only three elements are necessary for the existence of industry or production. Raw materials must exist; labor for their conversion into goods must be available; and there must be a consuming market which will absorb the finished product. Even the lone survivor of a shipwreck, cast upon a desert isle, must possess those three factors in order to survive. His hand and mind furnish the labor, his own hunger and need for shelter furnish the market, and the island must supply all his raw material—unless the beach helps to contribute the supplies of some unfortunate vessel.

A fourth element is necessary to the life of industry even in the most primitive forms of human existence. That element is capital. Even our shipwrecked survivor is likely to require more than his hands and mind for his daily sustenance. He will make tools to lighten his load and to increase his effectiveness. He will use his labor to create instruments the value of which will not begin to exist until they are completed, and the creation of which represents his past labors. The tools which he creates represent in large measure his capital. As he accumulates stores of food, clothing, and seeds, he adds to his capital. And his continued well-being and safety depend upon the existence of that capital.

The need for capital in modern industry is, of course, unquestioned. The expenditure of millions of dollars and years of effort in the construction of plant facilities and machine equipment is a common experience in the industrial system which has been built on such a heroic scale in America.

When, after the industrial revolution of the middle of the nineteenth century, industry began to be housed in factory units with machine equipment, America's equipment in the four necessary elements of production was unique. Raw material existed in luxurious abundance; labor was scarce in the young, sparsely settled country; consumer markets were available in Europe and in the elementary needs of the American people themselves; capital was conspicuous by its absence—and most of what little there was came from England.

The existence of raw materials, of some labor, and of a sales market offered, however, the possibilities of profits; and a real opportunity for profit is the unfailing magnet for capital. Europe gradually, therefore, sent capital in quest of profits. And with the four sides of the foundation complete, the edifice of American industry began to rise.

From almost the very beginning, the character of the industrial machinery which developed in America was influenced by the nature of the foundation upon which it

had been built. With an abundance of raw material and a shortage of labor, it was a foregone conclusion that American industry would be wasteful of materials and saving of labor. Labor saving involved primarily the use of machinery, and the tremendous development of labor-saving devices in this country was born of the necessity for increasing the productivity of whatever labor was available. As rapidly as possible each step of the industrial process was taken from the hands of the skilled artisan aided by some elementary mechanical apparatus and turned over to the hands of some complicated mechanical device merely aided by an unskilled artisan.

A machine is both costly and inflexible. Its cost of creation is borne by the factory which uses it. Unlike labor, it is made for a highly specialized purpose, and ordinarily it is useful only within the most limited sphere of activity. But it can produce quantities. Given a standardized product, machine production resembles the fabled salt grinder whose product originally made and keeps the sea salty. Take away the standardized product, and the machine has value only as junk.

With well-developed machine equipment in existence, mass production therefore became the Great American Art. Automatically there was thus created the need for standardized production, and the genii summoned by those two magic words brought to the American people

quantity production at extremely low production costs, in spite of high wages.

As production grew, the producers were converted into increasingly more active consumers. Natural increases in population, augmented by annual floods of adult immigrants, added substantially to this increase in the per capita consumption. America was a nation of unsatiated people clothed in homespun and housed in log cabins. The potential demand seemed and was, for the time being, inexhaustible; and industry grew in size and productivity to satisfy the demand, creating by the very process of its growth a fresh demand through the increased purchasing power of labor. The closed circle of American mass production development had described its first segment on the economic history of the world.

It was further inevitable that, with the growth of machinery, the division of labor should become increasingly fine and minute. The journeyman shoemaker can make a shoe from last to polish. But even the most ingenious machine will duplicate only a very small section of his effort. The nailing of a heel, the stitching of an inner sole—each represents the separate function of one of the huge battery of machines necessary for the completion of one pair of shoes in a modern plant.

Undoubtedly, division of labor in turn affected machine development. The operating process was further analyzed

and dissected to discover more operations which could be transferred to the keeping of some mechanical device.

But the division of labor brought with it still another type of industrial development. In the Midvale Steel plant, during the early eighties, worked and watched a young engineer named Frederick W. Taylor. The results of his findings still live in the modification which their author has since effected in American industry.

Taylor resolved the operations of labor into their elements as he saw them. He timed each element. He created standard practice for the performance of even the most simple operating function. He intensified the division of labor, amputating another leg from the complete function method of the journeyman skilled artisan. He despatched work to machines, supplying the machine operator with supplies of materials. He supervised the tooling and speed of machines for their operation. He created wage plans to increase production. He engineered another arch in mass production by patterning an organization plan for labor upon the functioning of the machine.

With this further specialized division of labor, it was only natural that a greater development of machine practice should take place. It did. Taylor and his disciples had supplied the technique of breaking down any operating procedure into its elements or motions. Mechanical

devices to take over many of those motions followed.

The final development, to date, expresses itself in the use of the conveyor system of production. Under this plan, materials are moved to men in a continuous stream. The schedule of production is based upon the speed of the conveyor, and men must keep pace with the inflexible routine of industry's master ferris wheel.

By 1914 America had built an industrial productive mechanism that had no counterpart. Unheard-of production capacity, mountains of annual volume, undreamed-of low unit costs were the factors which made America a nation of almost unparalleled wealth and high wages.

In the process billions of dollars were invested into plants and machinery. Change for such an immobile mechanism was an expensive process. Standardized products and continuity of operation were necessary adjuncts to the fullest use of mass production. Goods in process tied up large amounts of capital in inventory. Raw materials in large amounts were procured ahead of needs. Inventories of finished goods were accumulated during the ebb periods of buying demand. And all of this so that the wheels of industry could continue at unslackened speed and with undiminished flood of low-cost goods.

But even a steady speed for those wheels was insufficient. The overhead charges of a business could be reduced as an element in the cost of each item produced

only if the number of those items was increased. And conversely, if the production could be increased, the profit per item would increase by the reduction in the overhead charge.

"Overhead charges" became the conventional dragon of the business man's story, and "increased volume" was the fair knight whose destiny it was to effect the destruction of the hideous monster. "Reduced overhead" became the war-cry of the embattled forces of business leaders.

But in the very devotion to the slogan and in the instruments that were to do the reducing were concealed boomerangs of danger to the business man's long-cherished paramour—mass production.

What the effect of this demand for large and increasing sales volume has been on the American economic system becomes clearer from an analysis of distribution.

III

Evolution of Distribution

FOR the past few years adverse criticism has been levelled against the high cost of distribution. The margin between the cost of producing an item and the price the consumer pays for it has been broadcast so thoroughly that, without much coaxing of the imagination, one can easily visualize those engaged in distribution as rank highwaymen with black handkerchiefs over their faces and automatic pistols in their hands. By some critics of the economic system the figure is, indeed, accepted in all literalness. Somewhere on the highroad which merchandise travels from producer to consumer, at any rate, there would seem to exist a bottomless abyss into which the consumer's dollars are falling! The forces of the attack upon distribution have been recruited from many classes. Governmental agencies, institutions of research and learning, and economists of general or group recognition have repeatedly warned against the dangers which beset the consumer's purse.

The evils of contemporary advertising have been pointed out. The value of contents has in several cases

been measured against the price of a proprietary product —and the difference is often ludicrously great. Exaggeration in copy has been lamented, although the thesis against unwarranted advertising claims suffers from the fallacy of building a general indictment upon the basis of only a few carefully selected examples.

Few, if any, of the attacks made upon the general function of distribution or upon its constituent parts seem to have taken into account the cause of the group of conditions labelled as high-cost distribution; the essential relationship between high-cost distribution and low-cost production has been likewise neglected. And few if any of those iconoclasts who hammer the industrial building in which they live have estimated or even seriously thought of the results which the successful execution of their ameliorative program would have upon the benefits of the present business system.

Distribution divides itself into two general classes: *first,* the function of marketing, which the manufacturer assumes in order to sell his product; and *second,* the function which the retailer performs by distributing his stock of merchandise to ultimate consumers.

About the distribution activity of industry as a whole it is difficult to generalize. There are so many variations in the types of distribution machinery that have been developed by the marketing of different kinds of com-

modities that any attempt to simplify the complex structure would, more likely than not, lay itself open to the charge of some inaccuracy. On the other hand, the alternative of explaining everything would create so many complications that even some inaccuracy is preferable to the incomprehensibility and dullness which would ensue.

As long as the problem of American production was the creation of a supply to meet a naturally growing demand, the marketing machinery of manufacturers remained a pigmy activity in comparison with the productive machinery. The manufacturer completed his job when he had made his products available.

The Western trader and the Eastern peddler were important links in the chain of travel which merchandise made from consumer to retailer. As areas became populated and there developed larger trading centers, the jobber became the middleman between the retail outlet—represented by peddler or small store—and the manufacturer. Later, those retailers who had built their business to significant proportions sought to eliminate the profit of the jobber, and bought direct from the manufacturer. The development of that method by which the manufacturer attempts to distribute direct to the consumer is, in fact, of recent date. It was, however, not born merely of the appeal which exists in the apparent but not always real saving due to the elimination of several links in the

chain of distribution; there was, as a vital factor, the natural desire of the manufacturer to control the sale as well as the manufacture of his products.

Methods for stimulating sales began to absorb increased attention as the desire of the manufacturers to sell in large quantities grew greater. Subsequent to the birth of every new product—either an invention or a result of the manufacturing experience of an established company—came the necessity of winning consumer interest for it. Retailers were not, and they still are not, interested in creating a demand for new unestablished products; and hardy pioneers who assumed the burden of introducing new products were faced with the necessity of announcing their wares to retailers and to the public as effectively as they could. The means by which sales efforts were made were for the most part compassed by the use of a sales force and by the application of some form of advertising. The advertising of the nineteenth century and of the first decade of the twentieth century was crude and of pigmy dimensions in comparison with the billion dollar advertising program of today. Nevertheless, it too was an appeal not without effect upon the public, and it aroused business leaders to the value of the printed appeal.

It is possible that very early in the history of mass production there already existed in the minds of industrial leaders the desire to possess consumer loyalty to branded

products. Since however it is probable that the use of advertising both in quantity and character was the result of the urge for greater sales, it seems much more likely that the pride of ownership in brand names was a result rather than a cause of the development of intensive marketing. The American productive machinery had developed to undisputed maturity many years before the use of advertising had passed beyond the most elementary stages of its development.

As productive capacity increased and the hunt for reduced overhead became more intense, it was necessary to insure continuity of demand and, moreover, a continuously increasing demand. Continuity of demand was based upon public interest in the product of the A B C plant and not in the similar product of the D E F plant; and it was equally true that the D E F company wanted a demand for its product and was uninterested in the demand that might exist for the same product manufactured by its competitor A B C company. Bulk goods with no identity everywhere became packaged goods labeled with a particular trade name. The public was taught the value of sanitation in the packaging of food products; the advantage of a trade mark in the responsibility which the manufacturer assumed by thus publicly acknowledging his industrial child; the danger of anonymity, and the superior qualities of this Gold Star brand and that Blue

Star brand. Retailers who sold unbranded merchandise offered to the manufacturer only a precarious loyalty, which might at any time be replaced without notice by some new love. Price was therefore an overwhelmingly important factor, and manufacturers of unbranded merchandise found it necessary to win their markets all over again with each new season if not with each new order for their merchandise.

Advertising when effective created a demand for a product. It increased turnover and reduced losses and invested capital. It opened up demands for new products and amplified the sales possibilities for retail outlets. It reduced buying resistance. Through the growth of desire on the part of consumers, it made retailing easier.

To the manufacturer, effective advertising campaigns were of even greater value. Increased sales thus created were the very things he wanted for the plant which shrieked for more production. Advertising a brand made sales to retailers easier; advertising reduced or eliminated the manufacturer's dependence upon the uncertain goodwill of the retailer. The public, once educated to a particular brand, demanded that brand and refused a substitute—thus removing the branded item from the field of continuous price competition as well as from the danger of being discarded by a shift of retailer's allegiance. The

consumer's loyalty, since it is based upon the habits of millions, is more dependable.

For more than two decades, the cry for more volume has been abroad in the land. It was the responsibility of the sales organization to make two blades of grass grow where one grew before. But even the intensive development of the market which yielded to such treatment was not enough. New pastures became necessary. New markets in America and abroad were therefore approached. It has been a long established fact that intensive development of farm lands creates a diminishing return; that is, that beyond a certain figure, each additional bushel produced on a given area requires an increasing amount of labor, materials, and money. The same principle holds true in marketing. Only in this case both the intensive development of old markets and the opening of new markets cost more and more per dollar of sales obtained—since far-flung markets are usually more costly to cover and poorer in consumer purchasing power, and the development of increased sales within the same market requires a finer drag-net. It is also true that the most fruitful markets are likely to be the first exploited by any industrial institution.

Increased volume, such as was called for, was therefore obtained at an increased cost per dollar of additional

sales gained. The increased volume was clearly favorable to production, since it allowed ever-increasing quantities to be produced at lower and lower costs. But everyone forgot that the responsibility for this increase was thrust upon the marketing organization and was successfully assumed only at a continually higher cost. Production became the proverbial lily upon which economist and business man painted coat upon coat of gilt. Distribution, on the contrary, received only black looks for its labors. Here, it was said, resided the waste of our economic system. And no one considered that the existence of low-cost production depended upon high-cost distribution.

Although, in convention, industry belabored distribution, back in the executive offices of each business, however, councils worked at fever heat, making plans for increased sales. Again and again the problem was given to the sales department, and time after time the forager set out on his routes with a magnifying glass to glean every discoverable wisp of demand. This time, however, his resourcefulness brought unforeseen consequences.

Any community that lives on staples has relatively few wants. The community that can be trained to desire change, to want new things even before the old have been entirely consumed, yields a market to be measured more by desires than by needs. And man's desires can be de-

veloped so that they will greatly overshadow his needs.

Newness or style became the new order of the day. Retailers looked for novelties with which to tickle the jaded appetites of lady consumers. Sales organizations began to urge upon production changes instead of standardized low-cost units. Saturation came quickly if the market bought to satisfy demand, but saturation would never be reached if what was in style could be changed quickly enough and made soon obsolete. Standardization became increasingly subordinate to style; uniformity of production was subordinated to style appeal. The factors necessary for sales began to impose themselves in this manner upon manufacturing.

This condition was fairly well developed by 1914. It prepared the stage upon which the war trod during those eventful years. And the effect upon the economic drama was stupendous.

IV

Evolution of Retailing

ALTHOUGH retailing has undergone radical and even revolutionary changes since the war, by 1914 the general framework of the present retail system was fairly complete. The country general store had for long been the communal center at which the physical and intellectual needs of the community were satisfied. Cities had their department stores and chain stores; and the larger cities had a full complement of department stores, specialty shops, and chain stores.

The growth of retail outlets is likely to be much slower than the growth of the enterprising factory. Whereas the factory, when it has a desirable product, can reach to the ends of the world for its market, the store or shop is dependent for its growth upon the community in which it exists. A local community can develop either through growth of trading population or through increase of purchasing power—but even with the most prosperous conditions and even with the efforts of the most go-getter type of Chamber of Commerce, both the population and the wealth of cities increase slowly, if we except unusual

and spectacular cases like Miami or Los Angeles. A retail establishment can grow also by attracting part of the community's purchasing power from the doors of its competitors to its own doors. In order to effect this, it must, however, win the buying public's confidence. To win such confidence is not easy; consumers are creatures of habit, and the habit which keeps them buying at one store is changed only by some grievous sin of commission on its part or through some unusual benefit offered by a new store. In unadvertised lines the manufacturer can, in theory, at least, win a market overnight; the market, in other words, will shift its allegiance if the novelty or price of his goods prompts the requisite change of heart. The retailer, on the other hand, finds it extremely difficult to wean the customer from his competitor's shop to his own.

Difficulty, however, does not imply absence of effort. Retailers are always striving to acquire a larger percentage of the community's business for themselves. In that effort lies the cause for some of the so-called extravagance of retailing; and to that same effort is to be traced the reason for the antipathy which a considerable number of retailers evince toward national branded goods.

When the retailer sets about winning the business of his community, several channels of endeavor are open to him. He can try to sell for less. He can attempt to

render greater service. Or he can have for sale goods which his customers will not find in other stores.

To sell for less, the retailer must either be able to obtain concessions in his purchases, operate at a lower basis of expense, or be satisfied with a lower net profit. Of these only the first is really a factor in underselling. A reduction in the net profit alone cannot explain successful underselling. The average net profit (not to be confused with gross margin) averages about two per cent of sales for most stores, four per cent for the efficiently operated stores, and six per cent for the unusually well managed or favorably situated stores. A reduction of two or three per cent in prices, if spread over the entire stock, will not be readily noticed by the customer; and yet such a reduction is usually the maximum that can be made. Moreover, net profit is a result of operation; and the uncertainty of style, general conditions, and weather makes it literally impossible for a store to estimate its prices so accurately as to effect a two or three per cent reduction in prices without courting the danger of a deficit instead of a profit at the end of the year.

The expense factor, except in the case of chain grocery stores, is not a vital cause of underselling. It is in most cases actually an effect of successful bidding for volume through underselling. Operating expense obviously depends upon volume. The store that intends to win sales

is likely to use advertising as one method. Advertising expenditures usually are made *before* volume increases are obtained. If increased sales are obtained, expenses may be reduced. However, there is a natural tendency for expenses to increase. Wages increase with tenure of employment; and rapid turnover of personnel does not offset this tendency, and is, on the contrary, estimated by all business men as an expensive procedure. Fixed expenses, too—rent, depreciation, supplies—are likely not to decrease appreciably; if anything, they have for the most part increased—as is particularly observable in the rise in prices of land and commodities which was in process up to 1920, a condition still true of the limited areas that are most suitable for store locations.

Although reduced expense rates were not and are not a factor in underselling, increased expense rates, however, have been an important factor in the effort for sales increase. Originally, the stores of America were concerned only with having merchandise available for the purchaser. Gradually, in the bid for business, retail institutions offered extra services and conveniences. Charge accounts were granted to those whose credit was good—and the expense of maintaining large bookkeeping departments developed, at the same time that large amounts of working capital were tied up. Customers purchased on approval. Deliveries made to the custom-

er's doorstep required expensive delivery departments. Store fixtures became beautiful and costly; store buildings became palaces with attractive interiors, cosy rest rooms, and information and shopping bureaus. On the expense sheets all this was measured in increased depreciation and increased payrolls. Also, when legislatures made and remade regulating laws and when the statutes of the states imposed restrictions upon employers with a view to the greater safety of the customers and the employees, the expense rate dazzlingly reflected this social-mindedness. And furthermore, because customers became increasingly critical buyers, the quality of the salesmanship had to be heightened. Personnel had, therefore, to be recruited from higher class and more expensive sources; careful employment and educational workers selected and trained the recruits—the expense figures recording another increase. All of these improvements were adjustments to an era of greater convenience or to an increasing competitive situation. Increased sales—or at least maintained sales—*usually* resulted; increased expense, however, *always* resulted.

As special services began to lose their unique character through general adoption by competing stores, the progressive retailer again fell back upon underselling, this time through the agency of economy in purchasing. As early as 1900, stores began to form themselves into

groups either in one corporate unit, or in voluntary associations with New York buying offices, for the purpose of joint purchasing. By 1914, this development had attained significant proportions in the number of its participants rather than in intensity or co-ordination of effort. Voluntary groups, for example, soon discovered that their members were unwilling to merge their prerogatives as individual units by assigning real power to a central unit. And even stores joined in corporate union discovered that the time-honored marriage between the buying and selling of merchandise limited the development of joint buying effort. The purchases of a central detached office were looked upon with suspicion and with a lack of a sense of responsibility by the local selling units—and serious losses due to slow selling were regular results. Even today, when the battle has become more intense, and the policy of hand-to-mouth buying requires the almost constant presence of the buyers in the market, the development of consolidated buying by a central office has made surprisingly little progress. Individuality of identity and operation seems to be a prime reaction in the psychology of retailers; and the aversion to concerted action on their part which results therefrom will prove a most important asset to manufacturers in their future competition for the loyalty of the consumer.

With his development of service checkmated by similar

development on the part of competitors, and with the force of consolidated purchasing power somewhat stultified by the desire for individual action, the retailer was compelled soon to make a fresh bid for supremacy—this time by leading his town in new and different merchandise. The store which had new styles first had an advantage. And the need of this advantage stimulated the growth of resident offices located in the markets here and abroad. Although large-scale buying power was not freely delegated to the central offices, department store executives were nevertheless quite anxious to have central office scouts continuously on the scent for what was new.

Newness is perishable. What is new today is common property tomorrow. The enterprising department store leader therefore made an effort to carry merchandise that would be different from that offered by his competitors. Exclusive agencies were sought out; or where that was impossible, the retailer insisted that particular items be confined in his town to his store. Private brands were developed: hosiery, gloves, and underwear began to appear with some cryptic word on them which, when deciphered, was generally found to be an anagram or plain abbreviation of the store name. Nationally advertised brands were carried, but the sales effort of the organization was directed toward the sale of the home-marked merchandise, in contrast to the cosmopolitan

brand that was equally at home on Main Street or Fifth Avenue, at Marshall Field's or the Hester Street Busy Bee.

In the national advertised brand the retailer saw dangers. Carried to the extreme point of development, all consumer merchandise would be national brands, and all stores would be as much alike as Number 2 and Number 2002 Model T Ford cars. Distinguishing marks would be gone—and with them store individuality. Store profit and good-will would then be based only upon either price or service, and the accident of location would determine the direction of the consumer's purchasing power. There would clearly be no consumer loyalty to the store and no freedom of purchasing on the part of the store from the markets of the world under the circumstances. The retailer would become a mere dispensing agent for the manufacturers who supplied his goods—instead of an independent and proud possessor of the loyalty of a section of the consumers in his community.

It is small wonder, then, that the retailer who prized his independence even in an association with non-competitive brothei merchants, should view with anxiety the extraordinary growth of nationally advertised brands, at the same time forgetting that his own unwillingness to develop demands for new products had been a real—if unwitting—parent to the lusty youngster against whose

strength he protested. He felt uneasy and he sought to minimize the place which the national brand held in his store. He protested against the price maintenance of national brands because he wanted freedom of price action on those advertised items which discretion told him to carry, and he wanted to be free of the uniformity into which a single price would put him and his competitors. Perhaps, too, he wanted to give some indication of the general economy of his prices, by making them particularly low on well-known publicly-priced advertised merchandise.

Such disfavor was for the most part limited to the large retail institutions. The small store selling convenience merchandise and depending upon location rather than upon reputation for its sales, was and is at present an enthusiastic supporter of both national advertised brands and fixed prices. The former makes selling easier, the latter makes profits surer and competition less keen. The small independent retailer was, therefore, the chief ally of the national advertiser; but against the former arose a competitive antagonist of no mean proportions in the development of the chain store.

By 1914, two general fields of retail trade began to be exploited earnestly and successfully by chains of small retail outlets. Groceries were distributed in large annual volume by large-size corporations owning a multiplicity

of sales units each of which did a relatively small volume. Low-priced novelty goods and necessities were sold successfully by chains of stores which limited their scale of prices to five, ten, or twenty-five cents. Woolworth was a substantial company by 1914; and the Great Atlantic and Pacific Tea Company was already an infant giant. Other products like tobacco, drugs, and drygoods, were being dispensed successfully by such companies as the United Cigar Stores Company, Liggett's, and the Penney system. The grocery chains and the "five and ten," however, were the most advanced of the chain operators.

These two types of chains operated for the most part upon different principles of appeal. The grocery chain unit was built upon economy and convenience. It was located in low-rent neighborhood districts where its wares were easily available to the residents of that area. Its merchandise was in large measure made up of standard bulk commodities or packaged national brands. Having no advantage over the local independent competitor in convenience of location, the chain store sought merely to equal that convenience, and then to build its primary differentiating appeal entirely upon price. Its large-scale buying, as contrasted to small purchases by the independent, was used both to eliminate the jobber who served the small retailer and to exert the pressure of extra dis-

counts. Purchases were made direct from the manufacturer at prices no higher, if really as high, as those which the jobbers paid before reselling to the independent grocer. Credit risks in the grocery business were the most hazardous of industry. Small grocery stores represented rehabilitation outposts for private and semi-public charitable institutions. Charity, in an effort to be socially practical as well as kind, measured its activities frequently by the formula "Help people to help themselves"; and in fulfilment of this requirement many unfortunate individuals were set up in the grocery business. Very often those whose economic career had not been too fruitful in the monetary rewards of success, gravitated down to the little grocery shop. The result was high mortality and low average efficiency.

The chain grocery store well financed could eliminate in the purchase price the margin which manufacturer and jobber had to maintain in order to survive under the extremely large credit losses incident to the grocery trade. This economy the grocery chain unit subsequently passed along to the consumer.

Being conveniently located and selling well-known brands, the demand for which had already been created by manufacturers, the chain unit was able to eliminate all of the extravagant features of the department store and the locally known independent. Charge accounts, deliv-

eries, advertising were dismissed as unnecessary elements. The savings were reflected in price. Even general overhead, distributed over many units, became relatively unimportant.

The total reduction in operating costs was extremely large. Chain store units could undersell their independent competitors by five or ten per cent without adversely affecting a substantial net profit—sometimes as high as ten per cent of sales. A five or ten per cent margin of underselling in merchandise, the prices of which were matters of common knowledge to the consuming public, was a tremendous leverage for prying volume loose from the independent; and a five to ten per cent net profit on sales created substantial surplus with which to expand operations. It was therefore inevitable that the grocery chain system should prosper and grow at the expense of its independent competitors.

The growth of the five and ten cent stores was due to the advantage of purchasing power rather than low expense ratios. The "five and ten" store, for one thing, was located in choice high-rent areas, because heavy trading traffic was an essential requirement for its success. Low rental expense, therefore, could result only from large volume. And although deliveries and charge accounts were eliminated, the savings have not been the cause of successful appeal, for they have not reflected themselves in price

concessions to the public. This must be true because the average net profit per cent of sales which accrues to the "five and ten" system exceeds the average net profit of the independent store by more than the cost of deliveries and charge accounts. It is usual for the well operated chain system to show a net profit on sales of over ten per cent, whereas the average net profit for department stores rarely exceeds five per cent of sales; and the cost of deliveries and charge accounts is actually less than this five per cent margin. The "five and ten" systems have been very successful and high sales volume per store has reflected itself in a lower operating expense than is possible for the independent store, large or small. But that economy has effected not lower prices but higher profits. The successful appeal of the "five and ten" to the public has not been based on low expenses.

It is in the buying advantage of the large "five and ten" systems that the secret of their success lies. They carry merchandise so low in price as to exclude the bulk of nationally advertised brands. The chain can buy, therefore, where it wishes and pay only what it must. Since it was limited by the rigid, self-imposed price levels of five and ten cents, or five, ten, and twenty-five cents, it found it necessary to develop both ingenuity and intensity in the search of resource markets. The degree to which that search was successful is evidenced by the great variety

which is offered to the consumer at five or ten cents. The circumference of a nickel or a dime was actually increased to unbelievable limits. As the specialized activity of the "five and ten" chain became more effective, the wide selection offered to the spender of a small amount took the chain system out of competition with the independent general store, to which low-priced merchandise was generally an annoyance.

As the volume of the chain system grew, its purchasing power as affecting the predetermined price classes also grew. Large-scale buying and the economies resulting therefrom were inevitable developments. The chain could underbuy even the largest independent store in the country. In addition to the real economies of purchasing, the "five and ten" chain benefited from the public's faith in the probable economy of trading in the units of the system. It did not require any persuasion to indicate to the public that a system that limits itself to five and ten cent articles, that has many stores and large purchasing power, makes no deliveries and does no advertising, can afford to sell at lower prices—or, as in this case, to give greater value at fixed prices.

Internally, the "five and ten" faced no organization problem of consolidating its purchases in a central office. In the first place, it began that way, so that there was no established attitude or prejudice in favor of independent

buying which had to be overcome. In the second place, it was obvious to any store manager that he could not possibly obtain by himself either the value or the variety which headquarters sent him. And finally, as long as the public was offered a constantly increasing variety in assortments, it had little opportunity, amid so much gasping with wonder at what could be bought, to complain that this or that item could not be purchased or could be procured elsewhere for less money.

Fundamentally well conceived, psychologically favorably situated, particularly well operated, the "five and ten" systems are today among the strongest economic institutions of the country. Their success has been astonishing, and it is likely to be permanent. Their power and possibilities of growth exert great influence upon their resource markets. Profits are likely to continue at satisfactory levels, although changing commodity price levels will modify their net return to some extent. Because their resale prices are fixed, rising prices may decrease their profits. Falling prices, for the same reason, will increase their profits. The next decade, at least, should be a period of increasing volume and increasing profits for the well-operated five and ten, twenty-five and a dollar chain systems.

Retailing has evolved rapidly from the opening of the present century. Only in the case of the "five and

ten," however, does such evolution seem to have arrived at a fairly permanent answer to a particular phase of the problems of retail distribution. Grocery systems, department stores, and independent small retailers are still in flux. For them the future holds great changes.

Changes in production and distribution were, however, not unaccompanied by radical modification in the habits of those upon whose favors the manufacturer and retailer depended.

V

Evolution of the Consumer

TO suggest that the American consumer has been a product of evolution may be to risk a challenge from the Fundamentalist. Nevertheless it is true; and it requires no subtle understanding of the processes of evolution to observe them at work in modern economic life.

It is a far cry from the well-known defiance of the public couched in the phrase "The public be damned" to the modern situation in which the public ruthlessly does the damning. It does not, of course, seem strange that any group which casts its ballot of favor or disfavor in terms of a thirty-five billion dollar expenditure should be able to exert the power of life and death over industry.

The average consumer of the middle nineteenth century who struggled for shelter and necessities has been left far behind by the great twentieth-century middle class of America riding in its seventeen million automobiles, and worrying primarily about its luxuries.

All human beings are consumers. Whether we spin or not, we must eat and be clothed, or we perish. It is

this indispensable requirement of food and shelter imposed by life on all who would partake of it that is the source of production and industry.

As production begins to increase, the consuming power of the producer also grows. Potentially, needs and desires can be translated into demand without end. Unfortunately, such a translation depends upon money purchasing power, and that purchasing power constitutes the dividends of active industry to its workers.

The basic demands of consumers who live in the temperate zones of the earth are sustenance, clothing, and shelter. Basically, if the food consumed possesses the necessary caloric value and the proper proportion of carbohydrates and proteins, physical needs will be satisfied. If clothing keeps the body warm and dry, it has fulfilled its prime function. If shelter does nothing else except protect its inhabitants from the elements, it justifies in the main its *raison d'être.*

But human beings are born with the desire for something more than the barest necessities. Savages or civilized savages, gods or devils, they all yield to the all-encompassing urge of æsthetics. Food must be palatable; clothing must have elements of beauty; and shelter must combine protection, convenience, and attractiveness.

The early American consumer looked gaunt and hungry. Pioneers in agriculture and industry, American

workers needed a good many articles and more of each article. It was not necessary, therefore, at the beginning for American industry to stimulate demand; the great function of production was, instead, to provide the financial means of allowing people to consume.

When, however, new products began to seek popular acceptance and new uses for old products—such as old-fashioned remedies disguised as sugar-coated pills—began to be exploited, the consumer soon felt the effects of intensive salesmanship—the parent of our present-day high-cost distribution.

Human nature very conveniently presented a variety of strings upon which an appreciative sales manager could play fortissimo.

Survival—in men as well as in animals—is the supreme urge. Fear of death or fear of ill health presents forceful arguments for business man as well as preacher. Any product which promises health can, if the promise is sufficiently convincing, acquire tremendous popularity. The patent medicines used such an appeal, and it was only their failure to make their promise of speedy restoration good that alienated the affection of a willingly credulous public. Those patent proprietary articles which have fulfilled at least in some measure their claims, have continued to prosper.

The urge towards reproduction does not perhaps lag

very much behind that of survival, and its rank as a factor in an article's appeal to the consumer is therefore proportionately high. It is that secondary manifestation of the "sex appeal" of the flapper and the libido of the psychoanalyst, the indispensability of attracting the other sex, which plays a major role in this connection. Animals, such as birds, are notoriously well provided with gorgeous plumages and singing voices during their mating season. Human beings, less favored, are thrown back upon their own resources and talents.

For men and women the conditions of climate and the evolution of reticence in modern society have further required that Nature's endowment be augmented by man-made attractions; and it is perhaps just as well that this is true, what with the sedentary character of modern life and the price it exacts in flabby muscles and ungainly figure. Financial status, education, and charm are a few of the accessories which assist us in the cosmic enterprise. Clothes, cosmetics, and other direct aids to beauty are not to be neglected, however, with impunity. We do not, of course, talk of sex appeal—but the implication is not distant in a large number of activities and purchases.

Another sales appeal—negative but effective—existed in the fear of social ostracism, whereby certain conformities in dress and house were looked upon, espe-

cially after some slight coaxing, as imperative; and still another appeal lurked in the natural human desire for ease of living and convenience. The latter sounded an especially powerful response—perhaps because a considerable amount of laziness is well-nigh ineradicable in human nature; perhaps also because, to a degree, idleness is an indication of the success we have attained on the economic and social ladder. We are frequently exhorted nowadays to save our time by allowing this machine or that method of service to relieve us of supposedly arduous or troublesome burdens; although, as a matter of fact, our use of the time thus salvaged is sometimes less valuable than when spent in those onerous or troublesome tasks from which we have been delivered. But, regardless of the question of their benefits, labor-saving devices have an extraordinary hold upon the heart of the consumer, who is in the position of a judge.

As rapidly as the American consumer got away from the pioneer days of continuous labor and hardships, he became interested in new goods—necessities, luxuries, conveniences. And even these three groups lost their clearly defined lines of distinction, and in many cases the last two also became necessities.

The natural rivalry of people was of importance in the demand for the new articles. Human beings are imitative: "Keeping up with the Joneses" is the title of a

comic strip that satirizes domestic life in modern society, particularly in American society. The absence in the United States of a caste system and the considerable freedom of opportunity which prevailed gave a freer play to such emulation than has ever been known elsewhere in historic times.

Industry was not satisfied to stand aside and to allow nature to take its own slow course, and so the great educational system of teaching by mail and the printed page was inaugurated. Advertising became a force in American life. Threats, fear, beauty, sparkle, persuasion and careful as well as wild-cat exaggeration were thrown at the American buying public as a continuous and terrific barrage. The technique has since then improved, but the elementary bases of appeal have remained and are likely to remain about the same.

Threat is an implied if not expressed corollary of fear. Beauty is desired by nearly all people—men as well as women. Persuasion is the gentler method of reducing sales resistance. Exaggeration is in part unjustified and in part the natural and necessary enthusiasm of the salesman.

There has recently been a great deal of criticism of advertisements which have unjustified claims. "Better Business Bureaus" are doing a praiseworthy piece of work in raising the standards of "advertising truths." But

such efforts are to be honored only to the degree that they increase popular confidence, and not for the reason that the truth is a godly quality. Such a statement—even when, as here, carefully confined to the business sphere—will probably be labelled as spiritual heresy, moral turpitude and unethical practice. But should advertising ever really limit itself under judicial oath to tell the whole truth, unvarnished and unadorned, woe betide confidence in America's products and industry.

Imagine a radio advertisement which spoke of the inevitable screeches of static; or an automobile announcement that complained of repair bills, broken fan belts, rough riding, extravagant gas and oil consumption, short life and low trade-in value. And yet all of these shortcomings are common, even usual, experiences. Imagine some proprietary article that told its story in words of truth and said "This is a mild agent, it will not do much, but it helps a little, and it is pleasant to take." If the whole truth were really told, the career of advertising would degenerate from the impact of a powerful hydraulic hammer to a mildly reproving weak slap on the wrist.

We as individuals exaggerate the good qualities and minimize the bad qualities of those we like. And all of us who are not downright saintly are prone to forget all but the mean qualities of those whom we dislike. Practically all of us are, besides, unduly charitable to

ourselves. There may be a few of us who can endure to peer into our own souls, hearts, or minds without the protection of rosy hued spectacles. But the rest of us—and we are vastly in the majority—realize that the world has not yet recognized our true value. Accustomed to exaggerate ourselves to ourselves, wouldn't we look with suspicion upon those who spoke of themselves or their products without some visible glow of self-approval?

Exaggeration cannot go too far without reducing the public confidence. In a recent issue of a national magazine there appeared the advertisements of six cars, each of which laid claim to world supremacy. The reader of such advertisements was not likely to accept any of such claims as even reasonable, and the effect of all of them was probably wasted. It is not good business to begin an advertisement with a caption that screams "lie!" at the product. And it will be good business sense and increasing public knowledge which will improve and, where necessary, moderate the temper of our advertisements.

Through advertisements many of the buying habits of the American consuming public have been created and directed. In this process the moving picture theatre has been an invaluable ally. The moving pictures have assisted people to visualize beauty in home and clothing,

and have stimulated the appeal of sheer physical beauty through the national popularity of sometimes able and usually good-looking artists.

The moving pictures and the drama have not only assisted as advertising media for many unallied products, but they have also helped to develop the habit of ease and the art of idling—in which Americans have always been considered sadly deficient. Pleasure and relaxation are major attractions of the spoken and unspoken drama. The habit, once grounded, will most naturally result in an increase in furniture, automobiles, and radios.

The rest of the story follows in rapid order: Once the persuasive pressure of advertising grew effective, the demand for elementary needs became but a mere islet in the ocean of demand that had been created for luxuries and conveniences. Utility remained, of course, an inherent element in desirability. Desire had limits, but those limits were far broader than the narrow confines of strict utility. And so desire was enthroned in the minds of the American consumer, and was served abjectly by the industries that had enthroned it.

It is not difficult to appreciate that it was inevitable that desirability should win the place of consumer demand from the mere demands of utility. From the dawn of history, and possibly already long before then, desirability has shared with utility the sovereignty over consumers.

The beads, nose rings, and grease paint of the African aborigine fulfill not demand upon a utility basis, but entirely upon the basis of desirability. To us there may seem to be no basis of desirability in those outlandish gewgaws, but then our most favored possession would, in turn, probably be only a drug upon the African market.

The mere utility qualities of clothing would be easily satisfied by a burlap bag, heavy underwear and brogan shoes. But demand for such utilities would not enrich the modern promoter. Such an outfit is therefore immediately made undesirable, and the fashion world, instead, breathlessly awaits every bulletin that announces what is to be next desirable—until, of course, it is in turn made undesirable by a still more recent desirable style.

It is a well-known fact that the content value of some proprietary articles can be duplicated exactly by some ordinary chemical at a very small fraction of the price of the branded item. The utility lies equally in both. The desirability, on the contrary, has been created by the high-priced nationally advertised product alone. It should be constantly borne in mind that without such desirability, the demand for the chemical product never would have existed; and without anticipating considerable profit, no single manufacturer would have even thought of expending large funds necessary to create the desirability. If there is utility in the product and if such utility would

not have been generally accepted without the creation of desirability, it is by no means totally fair to challenge the bottled and branded chemical product, of low value, as altogether unworthy of its charge. And this does not take into account the almost unmeasurable but nevertheless real value of the bid which the advertised product makes for the confidence of the user. The medical profession does not discount the value of mental suggestion, and there is unquestionably more mental suggestion in the claims of a specially prepared and specially advertised bottled product than there is in the unmarked, unheralded and, possibly, ugly container which holds an equal amount of carbolic acid or carbon tetrachloride. Even in utility products, and certainly in convenience and style articles, the value of desirability as a social force is great; that it is a factor in demand is incontrovertible.

However, even as powerful a factor in demand as desirability finds increasing resistance to its selling force. As the consumers of America grew obese and complacent, the stimulus necessary to galvanize sluggish interest into active buying power became greater and greater. The American consumer was gradually becoming a sophisticated buyer, well surrounded by the necessities of life and the conveniences and luxuries. Moreover, even the increasing purchasing power that was created with expanding and intensive production was not a limitless treasury.

Even the most enthusiastic desire of the consumer required the necessary funds to convert that desire into a buying demand. All of us can be easily persuaded to have a real desire for a Rolls-Royce, but only a few can get beyond the fantasy to the actuality.

The offering of new products and the effort to sell more of established products brought to the table of the consumer floods of palatable, useful, and desirable tidbits and articles. The consumer purse, however, did not fill as rapidly as the desire to spend increased. Inevitably there resulted increasing competition for the consumer's dollar. Such a struggle became general, and whereas it could and did raise the cost of distribution, it could not really increase the consumer's purchasing power. Some re-direction of purchasing power, therefore, resulted, and the process of educating the consumer on how to spend his dollar continues. The method, however, did not return a full measure of results for an equal measure of effort. All manufacturers were seeking to be equally successful magnets of consumer popularity, and opposing magnetic forces, as is well known, to a degree neutralize one another.

Another device was therefore invoked in order to enable consumers to convert desire into purchasing power. The instalment plan of consumer purchase is an old device; its real development is a direct result of the war;

but its primary purpose was, and still is, the creation of consumer purchasing power by allowing tomorrow's funds to be spent for today's desire.

In the effort to direct consumer dollars to a particular product, the seller of that product had to make every possible endeavor to tickle the jaded appetite of those whose funds were already budgeted. Those products which persisted until wear or use exhausted their usefulness depended for demand entirely upon the recruiting of new buyers or upon the replacement orders of old buyers. For food or for any other article the consumption of which was completed within a short period, the replacement market was a sufficient basis upon which to build increasing demands. But for products whose life was fairly long, the replacement market created by use or wear was altogether too sluggish for the needs of mass production. For this type of article, depreciation or wear had to be replaced by a more active agency of demand.

It became clear that if a new development could replace some article that was already established, the whole consumer market would be once more available. Sales forces discovered that consumers were always interested in something new or different—in some novelty. It was obvious that obsolescence waited neither for consumption nor for the natural destruction that came with wear.

From a homely individual endowed with a ravenous

appetite, the American consumer has taken on many of the characteristics of the jaded, effete, and sophisticated man-of-the-world. Obsolescence is what the sophisticated, well-fed, well-equipped consumer practically forced upon production in return for his or her favor. It was a price which production paid with willingness and even encouragement, for it was the sinew of continued production. But with the rise of obsolescence, standardization dropped a rung and took second place to style; and at the same time inventory risks became too dangerous to continue uncontrolled by some protective change in the habits of business. The result is likely to be an almost revolutionary alteration in America's industrial system.

These changes in consumer habits, paralleled by similarly striking development within the machinery of production and distribution, were well under way by 1914. Then came the war.

VI

The Effect of the War

TO those who remember the emotional heights and tragic depths of those terrific days from August 5, 1914, to November 11, 1918, reference to the War as an abstract economic force may be abhorrent. But like most other episodes the experience of which seemed pre-eminently emotional in character, the War was basically, in its effect as in its cause, an economic convulsion. Although the style of the Treaty of Versailles may have been tinged by the emotional attitudes of its authors, its form and content were largely directed toward a reorganization of Europe's economic status. Nor did that reorganization stop at the other side of the Atlantic. The United States, too, came out of the fierce struggle of those years with the scars of conflict upon its political, social and industrial character.

From 1917 through 1918, the population of the United States could be practically divided into three parts—first, business men, whose profits were maintained at record levels; second, workers, whose earnings were at their highest peak; third, those who worked

for Uncle Sam for thirty dollars a month. From 1915 to 1917 and from 1918 to 1920, the third of these classes was almost wholly included in the second. Soldiers before and after the war were for the most part wage earners.

Prosperity in the United States remained at fever heat. Prices rose rapidly; plant capacity was increased both physically and through more continuous use; sales volume skyrocketed because of the dual forces of increased prices and increased quantity volume. Increases in wages, expenses, and price of raw material were not sufficient to prevent the net margins of profit from mounting to record figures. Business was superactive, and the stock market thermometer boiled over in its attempt to measure the fever-heat.

But the war brought and left behind it income taxes. Federal normal income taxes and excess profit taxes were made legal in 1913 by the sixteenth constitutional amendment. These taxes were claimed by the government out of each industrial pot that was won in those prosperous years. War costs money, and both industry and consumers had to supply that money. Bitter were the complaints against the high cost of income tax, but paid were the levies. Unfortunately, however, government participation in profits was not the only effect of income and particularly excess profit taxes. The con-

sciousness on the part of business men that a substantial portion of their profits would go to the government prompted them to loosen the purse strings and adopt an unusually liberal attitude toward expenditures that would decrease immediate profits but would make for increased profits during the future years for which one could prophesy lower taxes. The government, therefore, in taking its toll from the profits of business assumed part of the burden of the increased expense which was used to decrease these profits. This was particularly true of the high percentage taxes upon very large profits; and business men were not loathe to spend money which reduced the profits to a point of considerably lower taxes. Depreciation charges became in many cases sufficiently large to maintain plants in more than tip-top shape. Expensive experimental work was encouraged. Expensive market development was assumed with alacrity. The drawing of wage increases required no visit to the dentist's chair on the employer's part. Good-will advertising as well as direct advertising became a virtue whose strength now lay in the harvest to be reaped when government costs were again reasonable and profits could be garnered without substantial diminution for the upkeep of the Federal machine. Unquestionably, the effect of income taxes made itself felt on the expense figures of American industry.

To those consumers whose bed and lodging were not furnished gratis by the government, the war brought an enormous increase in purchasing power. The demand for labor was extreme and the competition for it was reflected in increased wage schedules. The attitude of the administration was friendly to labor and this was reflected in a definite encouragement of higher wages. Products were needed, profits were huge, and strikes were dangerous; the demands of labor for increases were given attentive and favorable hearings. Government contracts on a cost plus basis actually created an incentive toward legitimate increased costs—the larger the cost, the greater the net profit which would result from a fixed percentage of that cost. The reasons and conditions for increased wage levels were many.

But wage increases were not the only basis for the consumer's increased purchasing power. Continuity of employment was a direct result of the necessity for continuous production and became a factor in the increase of earnings. A high day or week rate means little if the days or weeks of work come but infrequently during the year. During the war, the days and weeks of work were augmented by overtime at double rate or rate and a half, and were only interrupted by legal holidays. The multiplication of wage increases and the continuity of work time represented a huge sum for labor in the aggre-

gate and for the individual worker who had sufficient health and strength to drink of the cup held out to him.

Generally the ability to spend easily keeps pace with—and sometimes exceeds—the power to earn. And so as their pay-envelopes increased in bulk, the wage-earner, his wife and their children grasped at the opportunity afforded them to satisfy some long felt want or newly created desire. Increased standards of living were made possible through the newly created wealth, and extravagances usually suppressed could for once be satisfied.

Both necessities and luxuries were in wild demand. New and better homes were found. New or more furniture was purchased. The "lack of economy" in owning only one pair of shoes or only one suit was corrected by the purchase of another pair or another suit. Cotton shirts of plain design were discarded for silk Christmas-candy patterns. Money flowed—and goods paid but little storage rent for space on merchants' shelves. Sales resistance was feeble, if not non-existent.

The war brought to American production that greatest of economic gifts—a seller's market. There was demand for goods of any kind and of almost any price. Sales problems were as extinct as the dodo. The great problem now was to get raw materials and labor. Customers made the long-time commitments that were so helpful to economical production. Manufacturers were

safe in a rising market to make equally long-time commitments for raw material. Inventory control was looked upon as the invention of a fool. Raw materials on hand were worth more than gold, for the value of gold decreased as prices rose and the value of raw materials increased as prices skyrocketed. Railroads, under the benevolent but not too efficient control of the government, were slow with deliveries, and larger inventories became necessary for the protection of production against the uncertain transportation and factory delivery of raw materials. With the constant necessity of available raw materials and the almost positive day-to-day increase in the value of those raw materials, the war imposed in every way a premium upon increased inventories.

The need for production and, as has been indicated, the effect of the income tax combined to shake loose the control of expense. Wages and advertising appropriations leaped ahead. The fact that the consumer market was comparatively rolling in wealth afforded an excellent opportunity for the barkers of the American Industrial War Circus to raise their voices. It is difficult to talk to a few hard-boiled hangers-on. But the presence of crowds of villagers eager to be invited to see the wonders of the Greatest Show on Earth will galvanize the most lethargic orator into a violent flight of oratory. The market was there to be won, and the manufacturer

and distributor were no laggards. Also, if profits were decreased by such increased advertising appropriations, the government shared that loss through its receipt of smaller taxes—and whereas the tax was lost, the money spent for advertising was not, since the effect of the advertising would be a buying habit that would probably last long after the business man's bad dream of an excess-profit tax was forgotten.

A new level of advertising appropriation was, in the first place, created, and an enormous group of recruits was brought into the advertising field. Companies that had been on the fence about the wisdom of advertising themselves and their products on a large scale were pushed off the fence by the realization that the government was assuming part of the cost of the experiment. It was an interesting development for industry—and a bonanza for the newspaper and magazine.

Manufacturers so generally had increased their advertising appropriations that in order merely to reach equality with competitors it was found necessary to exceed figures which formerly would have given marked advertising preponderance. The total amount spent for advertising reduced the value of each dollar spent; for each dollar became an increasingly smaller dot as the flood of advertising appeal grew greater. On the other hand, advertising was valuable, and decrease of space

or elimination of advertising would soon increase the effectiveness of the competitors who maintained their advertising appeal. It was possible to make reductions only when selling markets were not responsive, because all industry followed this plan. But when business was available each industrial unit had to keep its place in the ranks.

Even with such increased expense, however, industry did not suffer in profits. High prices, no losses in inventory, and large volume formed a tripod of increased profit that could support many a burden of expense without straining. Sales volume reached new levels of accomplishment and gave a new basis for measuring overhead percentages. Profit figures had at last become really normal in the opinion of the business leader.

The war undoubtedly also brought with it an increased manufacturing capacity. Industry facilities that could be used for the manufacture of government supplies expanded in plant and in equipment. It is true, of course, that industrial plants not engaged in this type of activity were prevented by government control from increasing their equipment and size or even from maintaining their machine facilities intact through replacement. It is also true that the total increase in plant facilities probably did not approach the increase of either the dollar or unit volume of America's industrial machine during the

period. The major portion of the dollar increase of volume really came from increased prices. And a substantial part of the increase in quantity was effected by the more continuous use of established productive facilities. The plants that worked on government goods were nevertheless so numerous and varied that their development left a substantial increase in the normal peace-time productive capacity of the country; and regardless of the extent of the actual as distinguished from the apparent increase in productive capacity, the war did effect, along with the higher standards of factory expense and the extravagant advertising appropriations, enormous increases in actual production and even more enormous increases in dollar volume and standards of accomplishment in sales and profits.

From these effects of the war upon production and the consumer, the influence upon the retailer must be clear. In many respects, the retailer reacted to war-time prosperity almost exactly as the manufacturer. Although there was no factor of production to create a labor problem for the retailer, he, too, competed for the labor supply that had once been over-generous. Wages consequently increased. How large an effect wage increases had upon the total expenditures can be seen from this: in spite of decreases in fixed expense percentages (rent, depreciation, etc.) as a result of enlarged sales volume,

the total expense percentage of retailing actually increased from 1915 to 1920.

Sales increases for the retailer came, during the golden period of high net profits between 1915 and 1920, from the same two sources that supplied the manufacturer with his record annual volume—substantial rises in the average price per unit of sale and an increase in the number of units sold.

At the same time, rising prices and a powerful consumer demand enabled the merchant to charge reasonably full prices. Gross margins were eminently satisfactory. Inventories rose in value, because as replacement costs jumped from month to month, stock on hand was increased in selling price through markups; this being done in order to match the most recent additions to inventory, which as a result of the greater cost required a higher selling price. With goods difficult to get and prices increasing, the shrinkage of original selling prices decreased to a minimum figure. The nemesis of retailers' "markdowns" was lulled to sleep by the potent music of rising prices. With higher initial markup or gross margin and with lower markdowns, the gross profit between cost and selling price of goods was considerably greater than it had been prior to the war. Such margins absorbed the increased expense and still left a net profit percentage that exceeded pre-war figures. When this

increased percentage of net profit was combined with a substantial increase in sales volume, the resulting dollar annual surplus available for dividends was sufficient indeed to warm the business man's heart.

To the retailer the war period brought an almost utter disregard for inventory budgetary control. Goods were scarce, price levels increasing, railroad deliveries slow and uncertain, at the same time that the demand was enormous. Retailers made long time, unnecessarily large commitments—in the hope of having at least half of their order filled. Large stocks and slow turnover, therefore, became a sign of good merchandising; rapid turnover for retailer and manufacturer was forced only through active selling and was entirely neglected by control machinery. Working capital tied up in inventory was more profitable than when kept in the form of cash.

In that intensive war school, industrial and commercial leaders had been educated to new schedules of expenditure, new standards of sales and profit accomplishment. And after that school had closed its doors, after men regained normal attitudes toward one another, the lessons so well taught remained with the business man and influenced his thought and action.

Then suddenly thunder fell, and the reign of happiness was over. The sun fell behind the clouds of liqui-

dation and the long, cold night set in. With one flip of the wrist, it seemed, unkind fate had set the industrial world topsy-turvy. That fortunate individual the industrial autocrat, who had sat atop the world, found himself in the predicament of holding that same sphere upon his belabored lap.

VII

The Long Arctic Night

IN October, 1919, the stock market broke with a resounding crash. Stocks that had built up their price levels point by point, slid like an avalanche into the valley. Day-to-day changes reported in the newspapers looked to those affected more like misprints than possibilities.

In January, 1920, raw material prices broke violently. Silk prices declined from $18.40 a pound to the discouraging figure of $5.81 seven months later. Wool, cotton, and rubber experienced similar declines. The market for raw materials—nearly as sensitive as the stock market—reacted with whirlwind rapidity to the unhappy developments. Orderly liquidation of inventory became a panicky dumping of goods; prices were slashed and reslashed. Organized retreat became a disorganized rout.

In June, 1920, the habit of liquidation had engulfed the retailer. By nature well fitted to avoid some of the dangers of declining commodity prices, many retailers had begun to replace their stocks with lower-priced mer-

chandise prior to June. The inventories of the retailer are not subject to national competition; they are in competition only with the stock assortments of other local retailers—and for that reason their price fluctuations due to changes in the index figures are likely to be much less violent than changes in the values of the inventories of manufacturers. But even with the forewarning available to the retailer, and the above protective factors which surround his inventory values, the extent of liquidation which took place in the spring of 1920 was so far-reaching that retailers found it necessary to take huge losses on their stock merchandise, and in many cases to advertise this fact to the public.

What factors contributed to the weakening of the foundations of American prosperity must be left to the speculations of the expert economist. To many, however, it would seem that psychology, the tightening of bank credits, and, most of all, huge inventories combined to destroy a house that had been built on sand. It seems likely that the attitude of business men and the increasing strictness of the banks together started the explosion. But it is probable that the liquidation of huge inventories, the accumulation of which had created a fictitious demand for goods, determined the volume and intensity of the destruction.

The years of 1920 and 1921 were blue years indeed,

as measured by business profits. In several cases profits were merely greatly decreased. In many cases, however, the year's deficits wiped out the profits of one or more of the years of abundance that had gone before. And to rub salt into the raw wound, the income taxes paid to the government on large profits previously were not reclaimable as an offset to the lean years of 1920 and 1921.

Up until 1920, the hum of business had afforded little opportunity for reflection. The years 1920 and 1921, however, provided many idle hours for introspection, and had some psychoanalyst stretched the tired and careworn body of industry upon his laboratory couch, unconscious complexes would have yielded interesting pictures of past conditions, present inhibitions and future possibilities. Consumer, manufacturer, and retailer represented interesting subjects for such an analysis.

The consumer was left a man of champagne tastes, whose pocket-book unfortunately could support only a beer diet. When production stopped altogether or even slowed its wheels, the consumer felt the diminution in his pay envelope or profit figures. Savings accounts were, of course, available, but these are not easily given up. As the decrease of earnings forced or suggested programs of economy the consumer gradually increased his sales resistance.

The manufacturer and retailer faced the dull months

of 1920 with the inherited characteristics of the super-prosperous years that had gone before. Increased productive capacity, high wage levels, increased expense standards—it was more difficult now to shed them than it had been to adopt them. Labor naturally was unwilling to reduce wage schedules. Overhead charges had depended so long for control upon increased volume that budgetary control was an unknown science, and the elimination of plant facility looked like retrogression—and moving backward is not popular in America. The levels of advertising expenditure had risen materially, and it was difficult to reduce them. It took time therefore to correct the qualities of extravagance; that it was done even in part was surprising to many.

Commodity prices began to decrease. The protection of reasonable overhead charges, the ability to pay labor its wage schedule, the maintenance of low costs, the use of sufficient advertising space screamed for sales volume. The war record of sales and profit figures challenged the business man to the peculiarly American necessity of creating new records of accomplishment. Beside, decreasing prices required increased quantity production just for the maintenance of volume, even if we except the much-to-be-desired "normal increase in business" which is the concern of the American business man.

Industry, however, faced a new and more parsimoni-

ous consumer. Gone were the headlong buyers of the fat years. And all this time, the necessity on the part of production for greater sales volume was implacable and urgent.

That was the problem that faced American business men after 1921—the essential necessity of an increase in sales volume and quantity production facing a wall of consumer sales resistance. And that was the problem whose solution by American business men has been one of the phenomena which puzzles Europe and which would intrigue America itself if it took time to pry into the wheels that keep it going.

VIII

The Puzzle of American Prosperity

WHEN in 1921 the American business man raised himself from the ashes of liquidated inventories and picked his way falteringly forward again, his direction was determined by the road already travelled, but it carried him through new fields of endeavor and over new obstacles. In his itinerary we may perhaps discover the answer to the puzzle why America has been able to hold its ground and remain prosperous.

Since 1921 business in volume and profits has been relatively good. As industry and commerce raised themselves out of the despondency of 1920, they gained confidence, and gradually they quickened their pace. For six years—nearly the usual pre-war cycle from depression to depression—American business has turned its wheels at satisfactory speed and given its owners and workers new faith in the fates. It is difficult to predict how long the situation will remain unaltered. Already one can see wisps of cloud upon the horizon, and time alone can determine whether they are the forewarnings of a storm or only the unimportant incidents of fair weather. But

whether present prosperity is to be long or brief, the cause of its existence has valuable lessons to impart, if its elusive basis could only be at last discovered.

Foreign visitors to America, in their search for the basis of American prosperity, have discovered only one thing—that the causes are as many as the agencies they visit. To such guests, whispered confidences have betrayed the fact that the secret lay in the present Republican administration of Calvin Coolidge. Again, the cause of business profits has been said to be the special contribution of the Federal Reserve System. Economic services which trace the statistical curves of past business and prognosticate the conditions for the near future have been credited with the responsibility. And there are those who claim that the secret of this prosperity lies in nothing else than the high wages which are prevalent today. Apparently no one has thought of telling our foreign friends that perhaps the cause of this extraordinary business period may be due, at least in part, to the efforts of business men themselves.

In addition to the difficulty of locating its cause, it must be said that the resulting business situation contains some very unusual characteristics. Falling prices usually accompany a rapid decline of business health; and yet since 1922 the present period of business activity has been coincident with declining commodity prices. Not only has

the period of business prosperity exceeded the usual span of life granted by history and by economic soothsayers, but that prosperity has been maintained in the teeth of unsettled and certainly unsatisfactory economic conditions throughout the world and particularly in Europe. In the past, Europe's economic woes have always left their imprint upon American business, but just now such convulsions as are Europe's have apparently had no harmful effect upon the digestive or mental stability of complacent America. Low money rates probably have some effect upon the stock market and may through the influence upon securities prices to some degree affect business psychology; but it is to be borne in mind that in the past low money rates have not been the companions of active business. In fact, cheap money usually indicated lack of business demand for capital, and really active business was measured by the premium which the discounting of commercial paper required. Here we are, instead, in the present business period of prosperity watching money rates slide slowly downward as business retains its levels or even rises slowly above its previous records. Unusual conditions these of this topsy-turvy business era—unusual in character and unusual in the nature of the forces which are responsible!

It has been suggested that the cause for the conditions of the present business period lies in business itself; but

it is unfair to dismiss altogether the other elements or factors to which the foreign explorer may have been directed. That the present administration in Washington has been helpful cannot be denied. Calvin Coolidge has impressed upon the American business man many a conception of Federal government that has been highly encouraging to American industry. His policy of non-interference with business development has relieved the business man of his fear of government interference with either his development or his labor problem. The strict economy practised in and preached from the White House has been accompanied by a reduction of taxes; and that has, in turn, stimulated economy and the drive for profits based on economy. Business has been good under Mr. Coolidge's administration, and the very existence of prosperity has given courage and marrow to the efforts of business to maintain and increase this prosperity. American business men have had the confidence to do things, and confidence is a necessary ingredient in the recipe of the profit cake that is cut on each of a business's fiscal birthdays. Mr. Coolidge and his administration have undeniably contributed to the kind of confidence that makes for good business; but since something more than confidence is necessary, the search for the cause of business success must carry us much beyond the city limits of Washington.

There is another federal agency that has a just claim to at least a part of the cause of good business. The Federal Reserve System, by controlling the flow of currency and to a large measure the available supply of credit, has exercised a very real influence. The period since 1921 was the first during which America had the advantage of the use of its new banking system under peace-time conditions. Orderly money markets have been maintained; seasonal variations in money rates have been levelled. Perhaps, too, incipient periods of inflation which escape much notice have been nipped in the bud. But if it is true that money exerts its real influence only when its stringency calls halt to an overextended business condition, then the Federal Reserve System cannot, with all of its value, be the main reason for business prosperity; since there has been no evidence of overextension in business—unless recent reports of brokers' loans can be divorced from the speculative activity of the country and assigned instead to the industrial and commercial interests.

The claims which economic services make to their responsibility for American prosperity need not be taken too seriously. Although many of these prophetic devices have failed utterly to anticipate conditions, some few, it is true, have been accurate, and nearly all have contributed valuable information to their subscribers. But the subscribers are a mere handful as measured against the

host of business men whose combined activities constitute American industry. And even if all or most business men were letter perfect in the texts issued periodically from the headquarters of these services, what business leaders did with what they read would be the cause of prosperity or depression. Regardless of the stimulus to the actions of American industrial leaders, whether such cause be a sleepless night, a tasteless breakfast, or an economist's words of wisdom, the influence upon business will be traceable in the action and not in the cause. Even if one were ready to extend the present narrow limits of the influence of economic services, the cause of American prosperity would still not lie in the printed pages of those services but in the rules of action—printed or unprinted—put into force by American industrial leaders.

Since 1920, average wages have declined from an index figure of 235 to an index figure of 233. So it can be fairly said that wages are still high. In terms of purchasing power they are, indeed, discovered to be actually much higher as soon as it is realized that in that same period commodity prices have declined from a peak index figure of 247 to one of 149½. It appears clear that the average worker can buy more for his wages than he could in 1921. And it must appear equally clear that his ability to buy more is due to the fact that he and his brother wage earners are consum-

ing greater quantities at lower prices—otherwise wage levels would have no visible means of support. This extraordinary and apparent paradox of high wages and low prices is definite proof that the productivity of labor and the quantity of production have increased in this country. But as dramatic as this fact of high wages is, it does not explain the cause of American prosperity. Wages are a result of productivity; and productivity is a result of business activity; we cannot, nevertheless, complete the circle by saying that business activity is the result of high wages, for that would get us nowhere. It is necessary to discover, if possible, the cause of high productivity, increased quantity production and high wages, and for that discovery one must look to the machinery which creates all of them—and that machinery is industry.

But before the cams and gears of the American industrial machine are examined to discover what makes them go round, one factor that is financial rather than industrial, that is apart from rather than a part of business itself, requires some consideration. In describing the unusual character of this, our present period of prosperity, reference was made to the unsettled and unwholesome conditions of Europe. Ordinarily, such a circumstance would affect adversely the business conditions of America; but in this present period of economic upheaval, the unfortunate circumstances in which Europe finds itself

have really contributed in an important measure to our own prosperity. Europe's economic machine was put out of plumb by the war and its aftermath. Her needs were and still are many. The satisfaction of those needs required American productive capacity; and American industries found a ready market for exporting large amounts of merchandise.

On final consideration, however, it must be admitted that the total of American export represents too small a percentage of the industrial volume to effect more than a mere modification of economic conditions; the basic causes of American prosperity must definitely lie in domestic trade and domestic methods. In the attempt to analyze the business developments of the period since 1921, it is best, therefore, to review briefly the sequence of domestic events from 1920 and the war-engendered problem which ended in the upheaval of that and the previous year.

The first result of the break of those years was the forced and destructive liquidation of inventories. Stocks of merchandise were thrown upon the markets of the world at enormous sacrifices and the losses ranged from thousands to many millions of dollars.

It is probable that shortly after the liquidation of inventories began, the production machinery came to a stop. There was no desire to add to the fund of sacrifice mer-

chandise, and any demand which existed at the time was satisfied out of stocks on hand. Moreover, demands were minimized by the same desire to reduce inventories and so purchases of all kinds as well as production were seriously decreased when not summarily snuffed out.

Just as always happens when production decreases, the result of this slowing down process of industry and commerce adversely affected the purchasing power of those men and women whose economic well-being depended upon the activity of the business machine. With decreased purchasing power came decreased consumption, decreased demand, then decreased sales, and, once more, decreased production . . .; and so the circle, gaining momentum at each revolution, turned back upon itself with increased impetus!

The power of an unavoidable friction, however, gradually contrived to wear down the velocity of the destruction. Even in times of deepest depression there is consumption. All men and all productive agencies must consume in order to exist; and the will to survive usually overcomes even the blackest despondency. It was this consumption which cleared the shelves of overstocks. And as production did not keep up a rapid pace of replenishment, inventories decreased fairly rapidly to a point where the wheels of production again had to be called into play to fill necessary demands. The productive ma-

chinery moved slowly, it is true; but it did move—and even such slight motion was preferable to the immobility of the painted desert that American industry represented for months. With the productive machinery again turning out its output of wages, purchasing power once more increased, till the vicious circle was supplanted by a straight line of increasing demand. Such a process in itself and unaugmented by other forces would have brought back to America modest normal industrial activity; but modest normal activity, measured as it would have been by pre-war standards, would have been insufficient for the leaders of American industry faced with war-time records to be surpassed and huge productive capacity to be satisfied.

The war records of American industry had left their mark upon the mind and needs of the business man. The sales and profit figures of the war years were not accepted as abnormal phenomena never to recur. Instead they were looked on as stars to which the wagons of reality could be hitched, if only the effort was carefully conceived and well executed. Mass production had preached its sermon of low costs too effectively for its legions of adherents to drop their ardent faith for a new and more humble industrial cult. Prices were falling and maintenance of volume meant increase in quantity production. Labor was unwilling to reduce its wage levels, but was

quite willing to increase its productivity—so that the only answer free of labor troubles lay in increasing the production per man to a point where the unit cost even under higher wages would be no higher than it had been formerly. That, in turn, involved increased sales. Other expenses, particularly advertising and general overhead, had risen with the generosity or necessity stimulated by the war. In some respects these new levels of expenditure could not be lowered; in all respects, any reduction was difficult. The pre-war fight against overhead had always used the weapon of increased sales—a weapon that was not to be discarded without difficulty. The sales department had no choice but to gird its loins for the fight.

It was soon discovered, however, that the sales resistance of the consumer had distinctly increased. A very sophisticated buyer, whose extravagance had been whittled down by the lean years of 1920-21, faced any manufacturer or retailer who had wares to sell. The consumer had been taught to want what was desirable, but the requirements of desirability had been raised through the joint action of greater knowledge and less buying power. Moreover, the Liberty Loan drives of the war had taught millions the habit of investing—and investment meant less funds for immediate expenditures. The American consumers offered a tremendous market, but it

was anything but a market that could be had for the asking.

Although the task which faced American industry was complex and difficult, its chief characteristic was easily recognizable. Increased sales volume was the need of the hour. And it was to the solution of this need that American business men addressed their greatest effort. The sales forces of the country planned their campaigns in minute detail and trained the barrage of their heaviest sales artillery upon consumer resistance.

Advertising appropriations and effectiveness of copy were increased. The manufacturer who sought to win the loyalty of the consumer for his products intensified his pleas for more consumers of his goods, and for greater loyalty on their part. Producers of materials that were used in the assembly or manufacture of the house, automobile, or radio advertised to influence the consumer to demand that the finished article contain his particular product. The manufacturer, by advertising, tried to win a loyalty that expressed itself in a consumer demand. The producer of materials or parts tried to win consumer acceptance which would encourage the maker of the finished automobile, furniture, house, or radio to use his material, because the advertising he had given it would make the sale easier to consummate. The campaign of Gold Medal flour, which attempts to promote the sale of

bakery bread (made of Gold Medal flour), is an interesting example of this procedure. The appeals of Timken bearings, Bendix Drive, Fisher Body, Ca-Vel velvets, tire manufacturers, Willard batteries, are but a few of the instances of the effort to win consumer loyalty by automobile parts companies. Products which, being parts or materials of a finished product, formerly limited their appeal to the trade through trade papers have in this manner broadened their appeal and reached out for the ultimate consumers. Tools, cast iron pipe, steel, copper, furnaces, radiators, household hardware are only a few of the great many products that have sought their markets through the aid of national advertising media.

With persistent and persuasive argument the manufacturer of America has used his individual efforts to win the consumers to his threshold. Recently, however, in some instances, he has added to his individual battle for sales, the force of joint action for the direction of the consumer's purchasing power to his type of product. He has recognized that with the huge field of buying opportunities available to the American consumer, anything other than limitless purchasing power demanded some selective decisions as to the most desirable forms of expenditure. Competition for the consumer's dollar is a free-for-all fight between all who seek consumer dollars, and not alone, as it had largely been before, between

those who sold the same product differing only in detail and brand name. The purchase of an automobile influences the purchase of furniture; and the reverse is true. Money spent for a radio is not available for the procurement of clothing. All industries, commerce, transportation, and amusements compete with one another for the consumer's dollars.

Recognizing this condition, there has developed the associated effort of groups of businesses selling the same or similar articles to attract consumers' interest to their wares. The appeal of the florists has been outstandingly successful. "Say it with Flowers" has become a valuable slogan to the flower sellers of this country. Mother's Day is a sentimental thought that is paying its way in the profits which it has offered to the florists who have great-heartedly taught the American public the meaning of the day and how to say it with flowers. Through group action the flower shops have been able to make use of national advertising—a superbly effective weapon which could never have been wielded by any single florist. Through national advertising, the American public has been made flower conscious.

The use of national advertising by retailers is still in a stage of embryonic development that is even more elementary than that reached by group appeal. There has been some attempt on the part of associated groups of

department stores to build national reputations for a brand owned by the stores. For the most part such advertising effort has been limited to magazines of class rather than mass circulation. Very recently chain stores, particularly the Liggett Drug Company and the Piggly Wiggly grocery system, have initiated an advertising campaign either to advertise some special event or to tell the story of the consumers' advantage in accepting the benefits of large and expert buying power. In this embryonic start lies, without doubt, the beginning of a development that will assume significant proportions in the next decade. At the present time, however, the advertising done by the retailer is limited to local newspaper copy and direct mail appeal. As in the case of national magazine advertising, the volume of local newspaper advertising, both from national advertisers and local retail institutions, has experienced a substantial increase. In many cases the percentage of sales spent on advertising by retailers has risen during the past five years in spite of greater sales volume; and in practically all cases the dollar expenditure for advertising is considerably larger than it was in 1921 and 1922.

Visibly, the power of advertising appeal has been applied in increasing measure to the consumers of America during the past five or six years. To what degree that force has been effective must be left in the final analysis

to expert estimation. The fact that hard-headed practical business men believe in advertising must, of course, be taken as good evidence of its real value. The unfortunate experience of those companies that have discarded advertising expense as a needless encroachment upon profits is a negative but nevertheless impressive argument in favor of advertising; and, on the other hand, the sustained and increasing success of business institutions that have expressed their belief in the printed appeal by the maintenance of their advertising program must be accepted, in part at least, as positive argument for the value of the printed public appeal. It is interesting to note that the chart of monthly advertising expenditures traces a curve that is followed several months later by a similar course of business activity. Three possibilities suggest themselves: this may be mere accident; or it may be that business men are able to anticipate business conditions and change their advertising appropriations to meet anticipations; or it may be that advertising really influences business. So long and so close has been the relationship between advertising and business that the possibility of accident can be dismissed. The action of the business man who is willing to appeal for business through advertising when he thinks business is imminent confirms for us his belief in its general economic utility, as well as his expectation that his timely ap-

peal will influence at least his own business favorably.

Advertising, however, could not solve the entire sales problem for American business. At best, advertising creates consumer demand; in most cases, it only creates favorable consumer interest. Distribution of products and the co-operation of the actual agencies which make the sale to the consumer are necessary concomitants to the stimulus of advertising. Distribution of products must accompany even the most effective advertising campaign. A demand that is created by advertising and remains unfilled through the advertiser's failure to have his stocks of merchandise available is almost as deadly as goods that do not move from the shelves at all. Both spell destruction if they exist long enough. Since, however, distribution and co-operation are functions of the sales force, increased sales required a more intensive organization and use of the manufacturer's sales department. Advertising agencies recognized this need and in consequence converted themselves from copywriters to market experts. Sales organizations joined them in the careful analysis of market possibilities. Territories were analyzed, sales quotas were imposed upon cities, towns, counties, and states. Such quotas may have been unknown to the consumers of the area whose purchases were pre-determined, but they were definitely known to that part of the sales force whose responsibility it was

to reach the scheduled figure. Comparative figures were used to judge and subsequently to reward or penalize the members of the sales organization. Educational programs were instituted and intensified. Competitive effort was maintained within each organization, as if business had become an Olympic game of figures. Team and individual rating and ranking were compiled and broadcasted; winners were rewarded with trips, money, and a complimentary paragraph in the house organ; egregious losers disappeared or, at the best, they suffered the ignominy of semi-public announcement of their failure. Loyalty to dear old Alma Mater was matched and soon surpassed by the do or die spirit that began to reveal itself in the effort for the "old man"—ubiquitous name for "boss" whatever his actual age. "For dear Old Siwash," the battle cry of all college stories and their screen versions, was lost in that leonine roar, "For dear old X. Y. Z. Company." Zeal was abroad in the land and zeal was measured by purchase orders bigger, better, and more frequent.

Men may smile at the American Babbitt—the go-getter who platitudinously and sometimes illiterately says he believes in America and busily bends his shoulder to the task of building business bigger and bigger. But upon the shoulders of that Babbitt rests the system that has afforded the very time and the very inclination for

the smile of the scoffer. America—juvenilely or otherwise—invariably responds to "pep" conventions, and the sales force of the country responded enthusiastically to the competitive high-pressure sales campaigns of the quotas. Distributors' co-operation has as a result of the feverish activity been won; increased sales have likewise been obtained. And so it is that to high-pressure marketing belongs a part of the credit for American prosperity.

The retailer was similarly faced with the need of increased sales through high-pressure selling. He, too, began to study his consumer market as expressed in the records of his transactions. Unit control of sales and stocks replaced dollar control—pieces of merchandise were bought and sold in his organization, and so the progressive retailer diagnosed his needs by analyzing the history of those pieces. Better assortments meant lower losses and higher sales, and even though the cost of his studies might be greater, the pressure for sales results required the increased effort. In addition, increased sales efficiency was sought through education of his personnel. The retailer has built extensive employment and training bureaus to enable him to add to his personnel better material and more expert technique to the end that a larger percentage of shoppers should become purchasers. More than ever, special inducements were made for consumer patronage—fixtures and interior display

were improved and beautified; rest rooms and service bureaus were added in increasing numbers; charge accounts were encouraged, and low or even free rate parking and garage facilities were offered to reduce the handicaps of traffic conditions. Sales promotion was sometimes expressed in panicky low-price appeal, sometimes in sustained low-price appeal, sometimes in subtle and careful style appeal, sometimes in unusual service appeal —but always with increasing power.

But even increased advertising and more intensive selling are not sufficient in themselves entirely to explain American prosperity. The continuous extension of markets must bring the manufacturer, sooner or later, to the borders of the arid desert of low consumer purchasing power. And the appeal to an intensively cultivated market cannot maintain for long an effective effort to sell another and another duplicate of a product to the same consumer. Saturation of markets—even of American markets—is not beyond possibility for goods other than those low-priced staple items that are consumed quickly. There is tremendous or unsurmountable resistance to the sale of an item that wears out slowly if the average buyer already possesses that item with some of its useful life still intact. Wear alone made replacement too slow for the needs of American industry. And so the high-priests of business elected a new god to take its

place along with—or even before—the other household gods. Obsolescence was made supreme.

Obsolescence meant being out of date. It could be created almost as fast as the turn of the calendar, certainly as rapidly as the creative power of inventive minds determined. The danger of saturation could be removed beyond the stars. If what had filled the consumer market yesterday could only be made obsolete today, that whole market would be again available tomorrow.

Consumers were intensely interested in the new. America is a rabidly progressive nation in material things, and possession of the latest this and the latest that is a favorite standard of individual progressiveness. Sales organizations besought the factory for something new. Competitors compelled the search for something new. Retailers sent legions of buyers to the corners of the world for something new. And Cæsar Consumer sat upon his dais and held his thumb down for the old, and his thumb up for the new.

The staggering progress of chemical and industrial science has brought with it both the constant anticipation of new discoveries and the actual day-to-day presentation of new products to supplant kindred products already in use. Obsolescence has been to a large extent stimulated as well as made possible by the progress of science.

Each year the new crop of automobile offerings casts

into obsolescence the used and unused models of the previous year. The last year's model that is mechanically perfect and has never turned a wheel all of a sudden loses twenty to thirty per cent of its sales value. It has become undesirable because the consumer market is open only to this year's latest designs. The radio development made phonographs obsolete until new developments in the field of the latter created a novelty appeal. And in the radio field itself, model after model tumbles out upon the market to claim the throne and to cast into discard the rulers of yesterday that seem today only crude, dispirited pretenders. Electrical refrigeration becomes practical, and all American households become a virgin market for the product. Ice refrigeration is in consequence fighting for its existence with the assistance of a lower price basis, the limited use of electricity in homes, and national advertising of the value of using ice. But to no avail! Electric refrigeration is new and it has the benefit of American favor. Within the field of electric refrigeration itself, however, it will probably be not long before we see a series of successive models each of which is new and each of which will attempt to make its predecessors obsolete.

Another factor of importance is less operative in the case of the refrigerator, however, than, let us say, in the case of the automobile. The refrigerator, located

as it is in an obscure corner of the house, is relatively unseen by neighbors. This tends in its case to extend the longevity of the old model, whereas the greater visibility of the automobile brings into play the added impetus of rivalry with neighbors and friends. The neighbors' ready recognition of new as distinguished from old models adds greatly to the factor of obsolescence of the automobile.

The automobile has, as is well known, contributed greatly to the prosperity of the country. And the auxiliary force of obsolescence has contributed tremendously to the desire which consumers have converted into the purchase of an annual production of 3,500,000 cars valued at $2,500,000,000. It was in the main Mr. Ford's failure to recognize the effectiveness of a change in models that was responsible for his poor results for the year 1927.

It is the degree to which the factor of obsolescence has been developed as an art or science of increasing consumer demand, and not the mere existence of obsolescence, that distinguishes the past few years. As a normal condition, obsolescence is probably as old as mankind; certainly it is as old as history. When the wooden clubs of primitive man were replaced by the stone hatchets of his Paleolithic grandchildren it had already begun its work; and as a handmaiden of style it was already a

sufficiently well-developed art in the clothing fads of the courts of Europe in the fifteenth and sixteenth centuries to evoke the execration and satire of moralists, stand-patters, indigent poets and puritans.

Obsolescence has always been an important factor for the retailer. The past five or six years have merely emphasized and extended its application. To the volatile "stability" of women's dresses has been added the complete conversion of women's shoes from staples to short-lived styles. High plain black shoes have become as rare as museum articles; and colors vie with leather and fabrics to win for the nonce the sweet young lady's fancy.

Furniture changes from Louis Quatorze to Early American with dizzy speed and dangerous losses due to out-of-date—in terms of style—stock on hand. Even table linens have lost their stolidity of plain white and appear in colors. Beds alter from unsanitary wooden contraptions to sanitary iron and steel bedsteads; and before one knows it there is a reversion from the unattractive, cold metal bed to the warm colorful wooden four-poster. Dishpans and cooking utensils are no longer simple articles of iron but scientific aluminum containers instead that save fuel and preserve the appetizing odor and valuable vitamines of the nation's food; and, finally, to the utility of a frying pan is added the desirability of

a color scheme that will harmonize with a well decorated and attractive kitchen. It is a topsy-turvy world in which we are living, and the retailer is a willing party to the shortening style-life of his products. Under his tutelage a year of style becomes first six months and then three months, and from materials, shapes, uses and colors, he accepts new changes as often as he decides for obsolescence.

Clearly then, obsolescence has been a vital ingredient in American business prosperity. One step beyond, however, was still necessary in order to ensure as large a consumer demand as American business desired and, above all, needed. Generous and effective use of advertising, high pressure sales methods, and especially the replacement of wear by obsolescence would, it is true, convert consumers' sales resistance into a real desire to buy. The fact that the consumer was already exhausting a good deal of his purchasing power, however, was a serious impediment to increased sales. It was therefore necessary that increased consumer purchasing power should be created. And this was done by the extraordinary extension of instalment purchasing, the plan which enables American consumers today to satisfy many billions of dollars' worth of their needs and desires.

It is difficult to estimate the exact amount of consumer buying which is done on an instalment basis. Estimates

range between five and eight billions of dollars annually out of a total annual retail volume of thirty-five to forty billion dollars. Even the most conservative estimate represents an overwhelming amount. There is cause to believe that the total increase in retail volume which this country has experienced is almost entirely represented by sales made on the instalment plan. Undoubtedly by this measure the consumer market has been as surely extended as if five million adults had been added to the population and each of them had spent one thousand dollars per annum.

The detailed mechanics of the instalment plan vary, but the plan itself is simple in principle. It consists of the sale of an article for a small payment at the time of purchase and a promise to pay the remainder in small equal instalments over the course of the succeeding months. The length of time granted for full payment varies from ten weeks to four years; but on the whole the average instalment account runs one year.

Instalment purchasing has occasioned more controversy than any other one thing the common people have done—even including political choices. Symposiums have been published only proving when analyzed that those who benefited by the system swore by it, and that those who were injured by it, swore at it. Automobile manufacturers felt that the plan was economically and socially

sound; savings-bank presidents testified heartily that it was nothing less than the invention of the devil. Erudite economists had made studies of the subject, and economic societies had listened to debates regarding it. And with it all, the problem was no better solved than it had been years before by Omar Khayyam:

"Myself when young did eagerly frequent
Doctor and Saint, and heard great argument
About it and about; but evermore
Came out by the same door as in I went."

Obviously the purpose of the instalment plan is to convert future earning power into present purchasing power. Some say it creates a mortgage on the future of America for the purpose of satisfying immediate whims and desires. But actually, in a way, government and industrial bonds do the same thing—except that some people have more faith in the wisdom of government and industrial expenditures than they have in the individual's use of his own funds. Others, who favor the system, say that, on the contrary, the instalment plan is only another and more effective method of saving so that the higher priced needs and comforts of life may be obtained. The improvident are unlikely to put aside voluntarily a percentage of each weekly pay envelope in

order to accumulate the purchase price of some furniture, of a bed, a radio, or an automobile. The instalment plan provides the desired article first, and then "encourages" the buyer to put aside a certain amount weekly to pay for it.

Whether or not any of us can be sufficiently omniscient to determine social standards for our brothers as individuals has never been satisfactorily decided. The benefits of an automobile riding public and a well-housed and comfortable consumer may manifest themselves in a healthier and more contented nation. Or, on the contrary, it may be better for people to forego the satisfaction of many of the desires and needs which are at present filled by instalment buying for the satisfaction of being out of debt and free from worry and financial pressure. The question is a moot one; it is also possible that each individual answers it best for himself out of his own particular set of circumstances and according to his temper.

This alone is indisputable; instalment purchasing has played a stellar role in the drama of business. It has gathered into the fold of the buying public of certain items those who could never have gained admission without this "open sesame" as a password. It has sounded a buying call to those who never could have heard anything other than whisperings of unsatisfied desire regard-

ing certain products. It has drafted for the army of American buyers recruits who without its aid would not have been able to serve in the ranks as purchasers of automobiles, radios, or furniture. It has not only extended the consumer market, but it has been an effective means of selling to that market. It is only human that a hundred or a thousand dollars should sound more than ten or a hundred dollars a month. Instalment buying, by the simple process of breaking down a unit price into a series of component fractions, has eliminated the terrifying aspect of large unit sales prices. It seems to be an equally human tendency to be less willing to part with the accumulation of past effort, represented by the balance in the bank, than to agree to part with future earnings for which there has not yet been created a paternal attitude of possession and protection. A bank balance, besides, is redolent with memories of the toil and time that had been necessary for its creation. Future wealth seems easier to get, less personal in possession, and is consequently less zealously guarded.

That instalment selling has added to the cost of distribution cannot be contradicted. That it has actually increased prices to the consumer is less certain. In some cases the serial method of purchase undoubtedly adds to the cost to the consumer. In other cases, however, it is very likely that it has reduced the ultimate cost

to the consumer; and in general the question cannot be answered. Seventy to eighty per cent of the automobiles sold are purchased upon an instalment basis. What effect upon the annual production of cars the elimination of that basis would have can be only imagined; but apparently no automobile manufacturer is willing to hazard the risk of the experiment of converting his sales plan to an all-cash basis. The elimination of the instalment plan would be certain to reduce greatly the sales of the automotive industry. What effect that reduction would have, however, subsequently on the manufacturing cost is another conundrum for the instalment antagonist. And such an antagonist must compare that unknown figure of increased cost with the known cost of selling on the instalment plan before he can state positively that the instalment plan raises the price of automobiles to the consumer. And, finally, even the cash customer must estimate what his cash payment would buy in automobile value if the volume of instalment sales suddenly disappeared and reduced the annual production of his chosen automobile.

Instalment selling, however, was not the answer to a question arising in a meeting on social needs or in a convention on distribution costs. It was strictly a method of increasing the sales of industrial and commercial institutions; and so long as those institutions continue to believe

that such a method is beneficial to volume and profits, they will continue the process, the consumers willing. If the plan is economically unsound, its weakness will either be corrected or it will destroy both the system and those who rely upon it.. If the plan creates moderate abuses, as it is inevitable that it should, those abuses will eliminate themselves or will grow strong enough to destroy the system. The instalment plan of consumer purchasing, for a large and important section of American industry, is too basic to disappear, however. It is here to stay; and instead of being harassed by fruitless abuse it should be studied in its details and improved. When it is accused of creating a condition of inflation that may mean a more serious reaction to business when prosperity ends, it must be remembered that it has also contributed materially to the prosperous years in which America has lived since 1922. The instalment plan can claim its just due as a very important contributing factor to American prosperity.

In a complex structure like the modern economic system it is difficult, if not impossible, to trace in simple outline the basic elements which contribute to the creation of a particular condition. To have listed the causes of American prosperity such as the preceding pages have attempted has required some courage. But temerity begets temerity. And having ventured so far upon the sea of business economics, it is possible to hazard one or two

more waves of denunciation and indicate two additional factors contributing to this era of good business.

The building trade of America has benefited during the past six years from three types of activity: First, the war had created a hiatus for two years in the normal building program of the country. The filling of this gap, in addition to the usual annual need for new construction, gave an impetus to building that expressed itself in wages and building materials. The second type of stimulus was furnished by the development of an industrial Southeast and the concomitant construction of factory buildings that developed in that part of the country as a result of available raw materials, cheaper labor, and active chambers of commerce. This building program converted invested capital into wages and into purchases of building supplies and machine equipment. The rayon industry alone—still an infant prodigy less than ten years of age—has expended more than $100,000,000 for plants and equipment. The change in American living habits was the third and perhaps most extensive basis of building expansion. During the past six years practically every city in America has witnessed a tremendous suburban development. City cliff- and house-dwellers have become commuters. The universal use of automobiles and the activity of "realtors" have combined to encourage this change, and the latent desire for better living conditions

has made house seekers willing listeners to the tale of the joys of country life only a stone's throw from the station. That the movement has by now passed its apex of speculative activity can be discovered during almost any railroad trip when one sees streets made and even named out in the wilderness of weeds and shrubs—forty miles from the city to which the land was intended to be a back yard. But the development is still progressing, and this time upon a substantial basis. Water systems, grading, streets, sidewalks, houses, and transportation systems in the suburbs have been natural results of the changed habit of American city life. And the active building programs this has involved have contributed a vital share to good business.

It may be strange to cite a balance of exports over imports as another reason for present prosperity, inasmuch as the so-called favorable balance of trade has been the habitual possession of America. It is because that balance of trade has no longer its old place and its former reason for existing that reference to the export surplus as a factor in prosperity is made. The explanation lies in the need which Europe has for American goods and the financial assistance which has enabled Europe to buy American goods and to delay the day when interest due America will have to be paid in a surplus of European exports to America.

The financing, through loans, of European purchases from America and the financing of American consumers' purchases in their own country are both expressions of the instalment plan. For the European, the money is advanced to be paid back over a period of years. For the American, title of the article is transferred, the purchase price to be paid over a period of months. Both plans have created sales markets for American industry; both have therefore contributed to American prosperity; and both have elements of danger for the future operation of the American business machine. In the American instalment plan, the danger lies in the abuses that can arise so easily; in the reaction in event the consumer credit structure tumbles before the whirlwind of unforeseen economic adversity; in the impasse which may be reached when the consumer's future has been mortgaged for a reasonably long period of time and additional purchasing power can no longer be safely created through the increased use of delayed payment without an actual increase in wages and wealth. In the European instalment plan the danger lies in the certainty that in the not-too-distant future the annual interest on American loans to Europe will exceed the yearly investment of new capital.

These are problems of the future—part of the heritage which this generation will leave for business leaders to come. To the present rulers of industry, meanwhile,

the instalment plan—here and abroad—has been a loyal subject and has paid its goodly share of the tax which the demand for increased sales required of the realm.

Although increased sales volume was and still is the cornerstone of the foundation upon which the profitable business structure of the present rests, it alone is, however, not responsible for the continuation of prosperous times. Increased sales volume, by making possible low unit costs, low manufacturing overhead and high wages, has, it is true, created high purchasing power. But the safety valve which has prevented, to date at least, a recurrence of the disastrous accumulation of business pressure that can blow up the entire power unit of industry is to be discerned in the development of "hand-to-mouth buying."

"The Hand-to-Mouth Buying Policy" is the prevalent slogan of all present-day enterprise. It means that the ship of industry is sailing close to the wind of probable sales. In previous periods of prosperity it has been almost the universal habit of business to accumulate larger and larger inventories—thereby raising the prices of raw materials and finished products, tying up working capital and setting the scene for Jack and Jill to tumble down hill. Since 1921, this mischievous habit of prospering business has not been in evidence, and for good common-sense reasons.

Not one factor but several have been responsible for the changed attitude towards inventories. The lesson of 1920-21 is the first that comes to mind. The losses suffered by business institutions as a result of the disastrous inventory liquidations of that period have preached a truly powerful sermon to business brethren. But a similar sermon had been preached before time and again, and the congregation had gone and sinned once more. Since 1921, however, there has been an abundance of sub-sermons to act as constant reminders. The education of business men which has resulted from the greater dissemination of economic principles, the valuable work of the business magazines of the country and the contributions of the economic services have combined to develop a class of business men who add to their intuitive judgment, prized not without reason in business, the beneficial support of a use of statistics and a knowledge of national conditions.

There was another factor, however, which encouraged the business man to avoid the building of large inventories. Since 1921 commodity prices have not increased; in fact they have shown a slight decrease. There is no reward for the business man who buys raw materials or finished goods in August only to discover that they are worth less in April. The business man cannot make money out of inventories on that kind of a trend—he has

discovered that. If prices had risen instead during the past five years, it may be that the solemn lesson of 1920-21 and all of the subsequent educational work would have gone to waste in the mad rush for inventory protection. But with prices stationary and even somewhat declining, the advantage was with the maintenance of minimum inventories. And where the advantage lies, there the business man makes his couch.

The railroads also contributed to low inventories. The increasing efficiency of railway transportation after the government had removed its paternal hand is a tribute to the principle of private ownership, and was a boon indeed to business men. The average period necessary for the shipment of freight and express consignments has been radically reduced since the war; and with that reduction, the amount of supplies on hand necessary to insure continuous operation has been also reduced. However, the railroads, great as their contribution has been, do not exhaust the roll call of reasons for the hand-to-mouth buying.

There is a final cause of inventory control that ranks at least equally with the others for business in general and, for some industries, outranks in importance all of the others combined. The fear of obsolescence of stock on hand conjures a spectre of losses that creates in the mind of the business man a very wholesome respect for

controlled and small inventories. Inventories that are too small for the expected sales volume may be responsible for a loss of the profits that could have been obtained; but stock on hand in amounts larger than those needed for sales leaves its marks in red ink figures upon the actual loss side of the profit and loss statement. Besides the loss, however, inventories cluttered with obsolete merchandise may prevent the purchase of the newest modes and models; and to the degree that the inventory is lacking in those items which are in demand, sales will suffer. Hand-to-mouth buying with its elimination of large and long commitments is not an ardent friend of mass low-cost production. And it is a piece of irony that the demand which mass production made for increased sales created the very puppy of obsolescence that now threatens to bite the hand of mass production. That however is another story. For the present, any account of industry must pay its respects to the protective influence which obsolescence has exerted upon inventory accumulation and therefore upon the maintenance of industrial stability.

This stabilization has been effected in two ways by the new inventory attitude. In the first place it has prevented the creation of an artificial inflation, through false demand for commodities, and the inevitable aftermath when business men begin to fall from the clouds of high-

flying but unsubstantial booms to the hard and unfriendly earth of readjusted values and depression. In the second place, the maintenance of small inventories has made possible a more modest use of working capital and has thereby removed the possibilities of strain upon the credit system, besides having made additional capital available for the business man's vocation of industry and avocation of stock market speculation.

The contribution of the hand-to-mouth buying policy that reflected itself in low, constantly renewed inventories, was real; but it was protective rather than constructive; negative rather than positive. It safeguarded profits that were realized; it did not create the business that obtained the profits or the volume of sales that made possible the prosperity to the protection of which it rendered such valuable service.

The positive services were rendered by advertising, sales pressure, obsolescence and instalment buying. It is to the ability of distribution and marketing that industrial prosperity owes its greatest debt of gratitude. Mass production is the essence of American business; the manufacture and sale of huge volumes of goods are the bread and butter of reasonable overhead, continuity of factory production, low unit costs, employment of huge capital investment, and the production of net profits. The war records of production appeared as high-water marks of

industrial activity. The subsequent necessity of surpassing even the war-time accomplishment was as difficult as it was essential. The difficulty did not lie in production but in obtaining sufficient sales to keep the productive machine running at top or nearly top speed, instead of coming to a standstill as was threatened. Sales records that represented high tide previously were now regarded as ebb water only, which was to be engulfed in a flood of purchase orders. The burden of maintaining American prosperity was placed firmly upon the back of the marketing division of business.

The instruments of present-day distribution have performed astounding alchemy in creating unprecedented business prosperity. They are costly devices in one sense; they are inexpensive if their results are measured in terms of the benefits of a busy and prosperous nation. Economically, they have justified their existence and proven worthy of their hire. Sociologically they are . . . they are just what each cult and "ism" makes them.

But nature does not rest. In the industry of today lie seeds for tomorrow's developments. And those germs of new conditions and new problems offer an interesting field for possibly significant speculation.

IX

CONFLICT

EVOLUTION travels into the tomorrow along the roads of yesterday and today. The problems which will most likely face business men during the next decade are already being created by present-day industry.

Of course the horse power that is pulling the load of business has given good account of itself; and the proverb teaches that one should not look a gift horse in the mouth. Since the business world is to continue its journey with the same horse in harness, however, it may be dangerous to take everything for granted, lest in the midst of swamps the supposedly healthy charger should turn out to be a rusty and musty nag that leaves us helplessly stranded. Even if such a circumstance should be only the rarest of possibilities, it behooves industry to examine the road and look around for its destination now, lest one day it should find itself all dressed up in glory of the past and no worthwhile place to go.

In the conditions of today there are, without doubt, some evidences of tomorrow's possibilities that are pregnant with danger. There exist potentialities of conflict

between the forces of business themselves which must be controlled if they are not to destroy one another and, in the process, some of the accumulated strength and profit returns of American industry and commerce.

For a business generation, there has been great and increasing veneration for the principle of Mass Production. To the magic of that phrase has been given much of the credit for the wealth and prosperity of this country. Low unit cost, high wages, good profits were the lusty and charming triplets that drew their sustenance from this fount. American economists and writers joined hands with European observers in concluding that the pass-word to American success was, essentially, Mass Production. Nor does there exist any basis for denying the contribution to American economic well-being which has been made by the system of producing millions of standardized articles at lowest-in-the-world unit costs. To those who are secure in their belief that mass production is the absolutely permanent foundation of American supremacy, it would be a shock of no slight magnitude to discover that time is already wearing away that foundation. Such a shock may be unwarranted at present, but it does nevertheless seem true that some of the developments of mass production are attacking their natural father—with how much success will be totalled in the economic history of the near future.

It should be first clear that "mass production" is actually what it says it is: production of mass. Huge quantity production depends in turn upon huge quantity sales. Mass production requires tremendous sales volume to realize its full possibilities. But it needs other things too.

Mass production flourishes best in the field of standardized products. To allow the factory to turn out exactly the same articles month in and month out, year in and year out, is to give the productive mechanism its maximum chance for low costs and lowest overhead.

The system of mass production, besides, requires continuity of production. Seasonal variation is a base alloy; continuity of production is the pure metal. Continuity of production requires that the consumer buy in equal amounts each month, or that the retailer accumulate inventories, or that the manufacturer build inventories which result from the combination of continuous production and discontinuous consumption. Since no law has as yet been passed compelling consumers to buy in continuous and equal monthly instalments, the regularity of mass production has been maintained primarily by the manufacturer and somewhat by the retailer. In a measure, the perfect system of mass production has not been a constant phenomenon; there has been some seasonal variation in production, although there has not been really enough of it to do more than merely modify the maximum

benefits of a theoretically perfect execution of the plan of mass production.

For the most part its adherents have kept production fairly continuous and fairly well standardized. The ideal fulfillment was approached most closely by Henry Ford, who produced more than fifteen million chassis of exactly the same model.

Although mass production tumbles its products off the assembly line of its mechanism in a torrential flow, the process actually requires a relatively long period of time from its start to its finish. The system of mass production is complex and specialized. Thousands of operating steps exist, and each additional step increases not only the goods in process but the length of time for the completion of one particular unit of production. But this factor of time in the process is a consequence rather than a cause of effective mass production.

The three qualities conducive to mass production are volume of sales, standardization of product, and continuity of production. And greatest of these is volume.

Unfortunately, however, the requirements of modern sales quotas are by no means similar to those of mass production. Sales volumes have been built and increased during the past five years through devices that are actually in conflict with some of the fundamental elements of mass production. Increased advertising, high-pressure

sales, extension of the instalment buying have contributed to the extensive and intensive development of sales markets. But they have also added to the cost of distribution. They have rendered their service in furnishing volume, but in the very process of doing so they have cancelled much of the purpose of mass production. The result sought through the use of mass production is low cost and low price. The increasing cost of distribution has offset at least some of the advantage, unless the volume obtained has made possible economies of manufacture which have balanced or overbalanced the increased cost of selling. But in principle there is already conflict here, and unless the cost of distribution controls its trend towards an altitude record, the peace of mind of mass-producers will be seriously affected.

Perhaps some suggestion of what lies ahead of American business will become clearer if the conflicts that seem imminent can be further developed. High-cost distribution is the price exacted by mass production. Although the services which high-pressure distribution has rendered to low-cost production are enormous, nevertheless the economies of manufacturing are being offset by the increasing cost of sales. Undoubtedly this in turn has stimulated new inventive and engineering skill to increase production efficiency, but there is a limit even to this possibility; and it is not at all an inspiring experience to find

the rewards of manufacturing ingenuity swallowed by increased marketing costs. Moreover, when economy in production has exhausted its major possibilities, a continuation of rising costs of sales will reflect itself in lower profits; and even with the hero-worship that exists for mass production, the American business man does not believe in volume for the sake of volume unabetted by a substantial profit-showing.

Already the signs of lower profits are here. The business man complains that competition is too keen and there is too much productive capacity in the country. True, he actually means that there is not a seller's market for the 100% use of his facilities. He forgets that all his competitors in their striving for volume find yesterday's market too small and today's market already cramped. His ideal sales market is one that constantly and almost continuously outgrows his productive capacity, and the fact that he must fight for his share of a slowly broadening market means for him that business is below normal. Whereas normal business, as measured over the course of years, represents the use of about 60% of the industrial capacity that has been built to meet peak demand, to the business man normal means "rotten" business, and "normalcy" exists for him only when the business machine is running at about 85 to 90 per cent of its highest rated speed.

Nevertheless, it is the business man's definition of normal—and not that of the economist—which determines business conditions. And if in the business man's opinion 90% use of the productive capacity is the necessary schedule, then that schedule of factory activity will determine the fight for volume. Below that percentage the spectre of deficits that are born of unbalanced overhead overcomes the desire for profits. To attain the scheduled production requirements, it can be expected that if high-pressure methods finally fail to obtain sufficient volume, price cutting will. And it requires no mathematical genius to calculate the effect of price wars upon profits. The essence of the problem here lies in the business man's attitude toward his requirements for sales volume.

It is a curious set of choices which the conflict between large volume and high-cost distribution writes upon the menu of the business man. If volume is to be maintained, then all of the elements of high-cost distribution must be retained and even intensified. Advertising must increase its efforts to win consumer loyalty, sales organizations and sales methods must improve in technique and most likely increase in cost. A price war is, of course, a poor substitute for high-cost distribution; even though the demand for constantly increased production may bring this eventuality as well as high-pressure sales methods. On the other hand, an effort to hold prices and reduce the

cost of distribution would either result in lower volume or necessitate the development of instruments for limiting competition and the creation of new economies of distribution. Lower volume will only raise manufacturing costs. New developments carry all the uncertainty of the unknown.

These possibilities of conflict are made more certain by the effect of obsolescence. Change of style and continual scientific developments have shortened the sales life of a large percentage of consumer goods. The sluggish power of depreciation as a recreator of sales markets has been supplemented by a more vital force. The "new" is desirable long before the "old" is worn out.

Obsolescence, however, made it essential first to sell the "old" before it was supplanted in the public's favor by the "new." Inventory accumulations, as was described, became therefore increasingly dangerous. The factor which had created a basis of public appeal injected T. N. T. into the stability of inventory value. A mistake in judgment as to style or sales quantity might explode the entire value of stock on hand. Obsolescence was the child of the need for increased volume. It has become, in turn, the father of hand-to-mouth buying.

The conflict between father and son is likely to be complicated by the growing power of a grandchild. The

result of inventory control is likely to be of considerable importance, and is worthy of detailed consideration. For the moment, however, it will be sufficient to indicate the scope of the conflict—the antagonism between controlled inventories and mass-production.

Mass production flourishes best with continuous manufacturing schedules. Hand-to-mouth buying, on the contrary, requires spot delivery, or at least quick delivery, as near as possible to the anticipated time of resale. Hand-to-mouth buying is the creature and stimulator of variety in style offering; mass production prospers most with complete standardization. Hand-to-mouth buying has established beyond doubt the economy of avoiding inventory risk. Mass production is consequently faced with the alternative of either accumulating dangerous inventories to anticipate retail demand without seriously impairing production effectiveness, or of constantly readjusting manufacturing equipment and manufacturing schedules to supply the changing demands of retailers expressed in small orders frequently placed. The former would involve the tie-up of capital and the danger of losses required to liquidate surplus or out-of-date inventory. The latter would penalize mass production certainly to the point of increased cost of manufacturing, and possibly to the point of radical modification.

It would be a simple solution of the situation if obsolescence and its influence could be annihilated and standardization left to reign alone once more. However, as neither the consumer, nor the need for volume, nor the advancing artistry of trade is likely to allow such a solution, the prospect of peace does not lie in this quarter.

It might also be possible to effect peace if we destroyed the other combatant—mass production. Such a choice, however, is just as impossible as the first. The manufacturing machinery ofAmerica would as a result decay. The ultimate foundation of American well-being would become a mere pile of stones with whose destruction would crumble the prosperity of the country. It is, as has been said, mass production that has created high wages and enormous purchasing power. It would be folly to impose the vagaries of the sales markets upon the productive machinery of the country to the point of eliminating the extraordinary benefits of that mechanism.

Mass production, on the one hand, must live and obsolescence, on the other, will live. It can be expected therefore that the conflict betwen them will continue and everything will, therefore, depend upon intelligent compromise. It does not require much imagination to hazard the opinion that the determination of a proper basis for compromise between mass production and obsolescence

will be one of the outstanding tasks of business men during the next decade.

There exists in the economic arena of today one other element of conflict the results of which are likely to have signal influence upon the business conditions of the future.

America, as was seen before, is at present a creditor nation, having advanced billions of dollars to European countries and industries. It is most likely that her interest obligations will be ultimately discharged through the shipment of goods—in which case America's balance of exports would become a surplus of imports.

The conflict between America's new position as a creditor nation and her established status as an export nation will be born of her present financial relationship with Europe, but the influence of that conflict will not be only financial but industrial. The presence of these rocks and shoals in the future of the nation's development are additional problems that await those business men who are to guide the American ship of commerce and industry over a largely uncharted and possibly troubled sea.

These, then, are the principal conflicts which confront American industry in the years just ahead: the growing gap between the economies of large-scale manufacture and the expenses of high-pressure distribution; the threat which obsolescence and its corollaries make upon stand-

ardized mass production; and finally the question of what will happen when our debtor, Europe, ceases to be able to afford a market that will continue the favorable export balance. To these questions it is essential that careful consideration be given.

X

The Age of Merchandising

WHEN a man's name is applied as a label to a school of thought, a state of mind, or an industrial condition, it is clear evidence that the influence of the individual whose name is used, has been positive and far-reaching. For years Henry Ford—the very sound of the words themselves was sufficient!—has represented the apex of American industrial development. To him was given the credit—and properly so—for making the automobile available to the masses. In his method of mass production lay the perfect means of joining high wages and low prices. Some of Mr. Ford's disciples preached Fordizing as a panacea for the industrial and business ills of all nations on both hemispheres; and others found the solution even of distinctly social problems in the universal extension of Ford production and wage plans. Up to the beginning of 1926, Fordizing was undeniably the most outstanding industrial institution in the annals of economic history, and it seemed subject to no valid challenge.

Nevertheless the developments of the past two years

and particularly of the past year, have made visible that very challenge. Late in 1927 the Ford plant began to produce after months of idleness, during which period the new giant of industry—the General Motors Corporation—became the latest industrial champion and broke all previous records of its own and its competitors' accomplishment.

In the story of these two titans of industry is the history of the economic revolution through which America has gone—without bloodshed and, in part, unwittingly. It must be apparent that the answer to modern—to today's—prosperity does not lie in mass production alone. Ford was and is the greatest exponent of mass production. Nevertheless under the very shadow of his walls, the General Motors Corporation has built the most profitable corporation that ever ticked off gladsome tidings to its stockholders. To Ford belongs the credit of creating a mechanism that has contributed in great measure to the well-being of American industry. To General Motors belongs the credit for adding to that base so firmly built a superstructure that has made still greater success possible.

There is no reason to assume that the industrial effulgence of Mr. Ford has been permanently extinguished or even dimmed. There is evidence that the light of his energy burns anew as bright as ever. But in the course

of the past two years, the experience of Ford and the General Motors marks the end of the era of the industrial divinity of Mass Production and the beginning of a somewhat different age of industrial activity.

Although the production of large low-priced quantities has been continued in unabated volume by American industry, the continuation of that production must have been dependent upon some factor other than the formula of mass production. The change—whatever it is—measures the degree to which the new order of the day has made the old order obsolete.

Mass production in its ideal form produced huge quantities of standardized unchanging products at lowest-in-the-world prices, and yet it is apparent that the appeal of low prices has not been sufficient to maintain sales—the diet of mass production—or profits—the goal of industrial enterprises. Style has become a greater factor than economy in the sale of all but sheer necessity products. Standardization, obviously, is a useful element in mass production only so long as the standardized product is in popular demand. Once it becomes obsolete by the acceptance of a new substitute—all the king's horses and all the king's men can make nothing useful out of the old standardized but obsolete item.

Model T, of which Mr. Ford built over 15,000,000, was built and sold upon the basis of economy. General

Motors made economy subservient to style change—to obsolescence. For Mr. Ford mass production made economy of production, huge sales and colossal profits possible—until, and this is the new story, the product itself simply outwore its public welcome. And that was the debacle of mass production! For the General Motors skill in determining style that would meet with popular approval made possible, through increased demand, mass production and its companion benefits, low costs, and great profits. Both great companies—Ford and General Motors—used mass production methods. But in the case of the one the starting point of industrial policy was mass production. In the case of the other, on the contrary, mass production was the result of sales policy, not the cause.

The differences of industrial policy between Ford and General Motors are ended for the present. The world has awaited the new Ford model with tremendous interest. Model T is obsolete and the new model holds the stage. As it pleases the public, Ford will be again among the first-magnitude stars of the industrial heavens. Again Ford will become the text for all industrial preachers; and he will be so upon the basis of his 1928 model—until, of course, the public cries again for something new, or, as is quite possible, Mr. Ford gives the public something new for which to cry.

There can be no question but that the industrial method which requires frequent or even periodic changes of a product can never reach the limits of economy which are possible when the manufacturing schedule is confined to a standardized product that can be manufactured without change month in and month out, year in and year out. It is equally true, however, that the cost of overstaying a sales market with products that have overstayed their welcome would exceed even extravagant modifications of products and factory equipment. Assuming that a recent newspaper account was even approximately correct, it would appear that the cost imposed upon Mr. Ford by the changes necessary to manufacture the new model amounted to $50,000,000. That is a huge sum. But the estimate of the cost—in losses or profits not obtained—of delaying a change of model amounted to $190,000,000. The price of losing the value of standardization—as large as it was—was estimated as only one-fourth of the cost of not substituting the benefits of change in style for the benefits of standardized mass production.

American industry in the past has had a tendency to build all business policies upon the foundation of factory production. Production has continually been the basis of sales requirements and sales efforts. In the General Motors Corporation, on the contrary, there is evidence of the fact that its sales policy has equalled in importance

the factory demands for economy and continuous production schedules. Where sales policies follow production plans—there mass production rules supreme. Where sales policy becomes a basis for determining production schedules—there merchandised production reigns supreme. And it is to this very method—it is to merchandised production that American business men have begun to turn and must turn their attention.

The King is dead! Long live the King! Mass production as an autocratic ruler of the destinies of American industry has passed beyond. In his place his offspring—merchandised production—is soon to undergo his coronation and initiate his rule. In the natural course of events, mass production took unto itself as a companion for better or for worse—high-cost distribution. The old, care-worn autocrat needed young blood to warm him. Only through this union could mass production survive. And from this union merchandised production was born. It is reasonable to expect, therefore, that the new rule should bear some parental stamp. It does. And in addition, there are qualities not directly traceable to either generative force but to some combination of conflicting characteristics of both parents!

To the American business man to whom another industrial era is here promised so glibly, it may be advisable to present some description of the infant, his possi-

bilities as a ruler, and his demands upon his subjects. It is unlikely otherwise that men of business will cast more than a passing glance at the prediction.

Merchandised production, or better still, merchandising—in order to include commerce as well as production—can be defined in as many ways as there are definers. An advantage of the printed page is that it enables one to make a dogmatic definition without the discomfort of hearing the Nays. With the protection thus afforded, "merchandising" is here defined as *the balancing of production or purchasing schedules with carefully determined sales possibilities in such a way as to obtain the greatest net profit consistent with reasonable risk.* Because a moderate element of risk is intrinsic in all business, risk cannot be excluded from the definition of any industrial enterprise or method. But the attempt to obtain maximum net profits at the expense of reasonable limits of risk is to court danger if not fatal disaster. Reasonable risk relates primarily to inventory control, and the overstepping of its bounds has intensified industrial crises and business despondency.

Such a definition, it cannot be too strongly emphasized, represents some fundamental deviation from the rule of pure mass production. It is important to realize the deviation, in the comprehension of which a few direct comparisons may be of assistance. The starting point of

all policies of mass production is the maximum manufacturing efficiency; the factory capacity determines manufacturing schedules and sales quotas. The starting point of merchandising, on the contrary, is an analysis of sales market possibilities both for type of product and for quantity.

Mass production imposes increasingly higher cost distribution in order to obtain that sales volume which will make the economies of mass production possible. Merchandising first measures the cost of distribution and then creates the quota of sales volume the winning of which will not affect too seriously the economy of manufacture and the existence of a residual net profit.

Mass production demands continuity of manufacturing and therefore the accumulation of inventory during those periods when production exceeds consumption. Merchandising measures the economy of continuous production against the risk of such inventory accumulation, and breaks manufacturing continuity in order to maintain inventories within reasonable limits of risk.

Mass production starting with a factory point of view emphasizes standardization and avoids change of style. Sales organization, on the contrary, seeking the new novelty emphasizes continuous change. Merchandising combines the procedure of both; starting from an analysis of consumer possibilities but tempering its attitude by thor-

ough knowledge of factory equipment and manufacturing economies, merchandising accepts or anticipates those changes which the factor obsolescence makes advisable, and avoids those changes which impose unnecessary burdens upon manufacturing effectiveness. The difference between the three types of procedure are notable. Mass production unrestricted in the drive for volume will create profitless business. The unhampered exercise of the demands of distribution will eliminate many of the benefits of mass production, and increasing selling costs will bring business to a state of merely "swapping dollars." Merchandising will be the balance device between the requirements of sales efficiency and the requirements of manufacturing economy; and in this balanced production and purchasing schedule lies the hope of continued profit.

There are those who call the present status of American business an "Age of Distribution." If distribution is used as a name for selling or marketing, then what is meant by the term is merely that this is an age of sales. Both sales and distribution, however, mean nothing in themselves; it is of prime necessity to discover what it is that this age is selling or distributing and why. The only correct answer that can be given must take cognizance of mass production. It is the untempered desire of American business to maintain mass

production that creates the era of distribution. It is, to be specific, the need for volume to make mass production superlatively efficient that creates the problem of sales.

As sales problems become paramount, however, their solution begins the process of destruction of the very force which created them. In the cost and obsolescence factors of high pressure distribution are the anti-bodies which tend to kill mass production. So long as mass production is worshipped blindly, so long will its slave—distribution—eat out unobserved the vitals of the master. Even the question as to which is now master and which is slave is immaterial in the light of one prime consideration: the two are so definitely dependent for their existence upon one another that the destruction of one—no matter which—is sure to involve the annihilation of the other. Unhampered mass production would continue to accelerate the problem of distribution until the latter finally destroys the former. Should mass production tumble it would drag with it the present system of distribution, inasmuch as that device has been built in order to serve the factory schedules of the mass producer. Since mass production is too valuable an element of modern economics, it is to be earnestly hoped that the urge of uncontrolled distribution will not compete successfully with merchandising for the minds and loyalty of the American business man.

It can be pointed out that the growing importance and significance of distribution can be seen in the increasing percentage of the working population which each year becomes recruited into the ranks of distribution. The fact is incontrovertible, and its cause is natural. Increasing volume has required that more forces, more money, and more people be engaged in gathering fuel for the fires of the producer. Improved methods of manufacturing have so increased the production per worker that greatly enlarged volume has been possible with only small increases in factory labor forces—leaving a large force available to distribution.

How long this tendency will continue depends not only upon the degree and scope of the improved technique of manufacturing but upon the demands and costs of distribution. Once the benefits of low manufacturing costs have been offset by increased cost of distribution, the growth of the ranks of selling and distributing will be at an end. The actual trend toward distribution growth has been determined by the profit possibilities of industries. It will be profit requirements, too, that will continue or reverse the trend of the future. The problem of American industry is neither production alone nor distribution alone; American industrial strength depends upon the proper relationship of production and distribution. To jump from mass production to an age of dis-

tribution is to leap dramatically but unavailingly from the frying pan into the fire.

Merchandising has been designated as the smiling bland son of such turbulent and mutually antagonistic parents. In the registry of births the genealogy of merchandising would present strange cards of parental qualifications:

FATHER: *Mass Production*

GOOD QUALITIES: economy of production, high wages for workers, low prices.

FOIBLES: standardization, continuity of production, large and increasing sales volume.

WEAKNESSES: inventory accumulation, necessity of adjustment to high-cost distribution.

MOTHER: *High-Cost Distribution*

GOOD QUALITIES: creation of sales volume, greater and better sales markets, loyalty of the consumer.

FOIBLES: obsolescence, lack of continuity in sales, extravagance.

WEAKNESSES: inventory risks, expense of maintenance, incompatibility with mass production.

In such a reading there are more grounds for divorce than bases for domestic felicity. Nevertheless it is from such a union of conflicting forces that there must issue some compromise to afford American business a basis for progressive development. In merchandising lies the hope of saving what is good in mass production and what is

necessary in high-cost distribution. A more reasonable, more cautious and more far-sighted generation must take the sceptre.

The mechanisms which merchandising will impress into use are difficult in their application but relatively simple in their description. Business of the future will make intensive studies of consumer markets. Market analysis will develop in technique and increase in accuracy. High-pressure sales, however, will continue. Sales volume is an essential requirement and the best methods of obtaining volume must be determined and pursued in order to offer the greatest possible sales results to industry.

The means at the disposal of distribution will still be exploited and improved. Advertising as a force will continue. Instalment selling will not be discarded. Sales quotas will be the basis for measuring the results of sales organizations. Obsolescence is a great force in the re-creation of consumer markets and as such will be an essential factor in the economic future. The analysis of market possibilities will be made with the object of converting those possibilities into actual sales through the use of all the devices which now exist or can be developed. Sales plans will be based upon actual opportunities more than they are now, but those opportunities will be sought out by every available reasonably-priced agency of distribution.

The drive for economy in distribution will become a pillar of merchandising. Obviously, however, a reduction in expense that results in an equal or possibly greater reduction in sales volume is not true economy. Such economies in distribution as will come, are, therefore, most likely to be based upon, *first,* the elimination of those sales market fringes the winning of which is not worth the candle, and, *second,* such realignment of sales endeavor as will produce lower distributing expense without corresponding reduction in sales. What lines this rearrangement will follow has already been indicated by existing developments; their discussion can be left for treatment later.

The study of markets and distribution, however, is only a fraction of the problem of merchandising. Production requirements and production possibilities will be scrutinized carefully by merchandised industry. Merchandising must know the cost of production and the method of production. The cost of production should be the basis for determining the margin available for selling and profit and also should indicate the more than probable effect of increasing sales volume. The method of manufacture should indicate the effect of new products upon manufacturing schedules and machine equipment, and thus regulate the tendency toward rampant style change—

that is, the tendency of obsolescence for the sake of obsolescence.

Some industrial institutions have been successful in combining simplification—almost standardization in production—with tremendous variety in sales offerings. Standardized parts and semi-finished standardized materials have been converted into a wide variety of offerings through the use of different combinations in assembly or the application of variation in finishing. Merchandising will stimulate this type of development.

In many factories there has developed through the normal accumulation of demands by the sales organization a multiplicity of samples which are offered to the trade. Often many of these samples represent only an extremely low percentage of sales volume but an extremely high percentage of manufacturing difficulties and uneconomic costs. Merchandising will review the sales results carefully and eliminate such samples as are relatively nonproductive. Simplification of price ranges and style numbers will aid manufacturing skill and effect an economy greater than the loss resulting from the elimination of a small percentage of volume. Manufacturing schedules will become more specialized and continuous—within the period of style; inventory risks will become less hazardous.

As a natural consequence of simplification it is not unreasonable to expect a change in the manufacturing methods themselves. In the effort to maintain standardization in manufacturing without imposing this requirement upon the sales organization, many industrial institutions will replace large units manufacturing many items with smaller specialized units limiting their production to one or a few types or styles. The character of the business will determine the size of the most efficient factory unit. Obviously the plant that manufactures an automobile will not be as small as the unit which makes toys. But each unit will seek to concentrate in production so that specialization will afford an opportunity for the economies of mass production.

This movement toward the smaller unit is likely to be stimulated by the labor situation. The Southeast is becoming the great industrial center of the country. Factories are springing up in the Carolinas, Georgia, and Tennessee at a tremendous rate. There are few large cities in this part of the country and the scarcity of labor will prompt the establishment of small factory units in the relatively small-sized communities which flourish in that territory. The movement of the textile business from New England to the Southeast has been an active process for many years. Textiles—particularly rayon—are not alone in this; furniture, steel, chemical plants are settling

in this historically old but economically new area. Labor conditions are favorable there for the manufacturer, but industry must adjust itself to the character of the labor market or vitiate part of the advantage by importing additional labor forces.

With complete knowledge of production and distribution, merchandising has, however, fulfilled but part of its necessary process. There remains the vital balance which must be created and maintained between the needs of production and the opportunity for and cost of sales. The determination of this balance—so important to future industry—is so individual in character that any general treatment of it can be of little use. On the other hand, detailed treatment requires more space than is available in this summary study. It can be stated, however, that industrial and commercial institutions will create an organization unit which is a part neither of the production organization wholly nor of the sales department wholly, to assume the responsibility of making and maintaining the balance between production and sales. Retailers have for years operated through the agency of a merchandising organization. Manufacturers will find it good business to adopt from the book of the retailer that page which contains the organization and process of the department of merchandising. Within this organization combining distribution and production

will be decided the wisdom of accumulating inventories in excess of actual sales. Such an organization imbued with the needs of factory and sales departments alike will be in the best position to make that compromise between the needs of both which will return the greatest profit to the business as a whole. If the balance between production and sales is vital, it is important to make the determination of that balance the special responsibility of an agency of the business, which will be prejudiced in favor of neither the one nor the other.

Important, however, as is the conflict between production and distribution in creating the need for merchandising, there is another factor that is equally or even more important as a stimulating force in the development of the new era of American business. With obsolescence a fact, the danger of inventory losses has forced manufacturer and retailer, particularly the latter, to intensify his method of stock analysis and stock control. The retailer must anticipate his sales in order to have stock on hand out of which the public will make its purchases.

In the past, the retailer has found that about eight cents of each dollar of sales has represented losses which he has had to take on his stock before the sales were finally completed. Such a cost of operation was tremendous, and as the style factor shortened the selling life of

his inventory, the danger of those losses increased. To reduce these losses, the modern retailer has intensified his merchandising. He maintains accurate records of the units. He buys in small lots and wants quick delivery. His ideal is to buy today what he can sell tomorrow and he is building his methods and policies to approach that clearly impossible standard. Stable price levels and freedom of working capital are, it will readily be seen, only supplementary reasons for the retailer's use of hand-to-mouth buying. But the fundamental cause lies in the retailer's losses due to carrying goods the selling life of which is short at best and is subject to fickle winds of weather and the consumer's fancy. The retailer must anticipate the consumer's desires and needs, but his safety lies in the brevity of the period by which such needs must be anticipated. The shorter the period of anticipation, the lower the losses on stocks on hand. The shorter the period of anticipation, the lower the average inventory. Small inventories mean quick replacement and small orders. The small quantity orders and speed of delivery required by retailers are the bone and flesh of hand-to-mouth buying.

In order to meet the requirements of hand-to-mouth buying, retailers have been developing two types of activity. Within the stores, unit control has given an accurate measurement of needs. Within the resource mar-

kets, retailers have established buying offices either to buy quickly or to make information more easily available for the stores' representatives on their frequent trips.

Spot deliveries are encouraged as against the placing of orders for future delivery. The desire of immediate delivery has brought back into existence the function—and in some cases the actual agency—of jobbing. Rapid deliveries have, in addition, placed a premium on complete flexibility of resource markets. The retailer wants to buy where deliveries can be quick. The choice between buying an established brand that takes eight weeks for delivery and an unknown brand that can offer immediate shipment is influenced by hand-to-mouth buying toward the latter. Use of a manufacturer's branded articles creates a certain prejudice for the supply available to the retailer and such fixity of supply may stultify hand-to-mouth buying. To the degree to which this is true hand-to-mouth buying has elements of definite antagonism to national brands.

To the manufacturer these effects of hand-to-mouth buying are naturally matters of real concern. To meet the retailer's demand for quick deliveries to replenish small stocks, the producer must carry complete inventories out of which the retailer's stock can be replenished quickly. If the product is a staple, the chief objection to this practice lies merely in the tie-up of working capital.

But if the merchandise is volatile in nature, the accumulation of inventories adds to the disadvantage of frozen capital the grave danger of losses due to the presence in the warehouse of unsalable goods.

The difficulty does not, however, end there. If hand-to-mouth buying leads the retailer to demand complete flexibility of market without prejudice to brand, then the permanence of the manufacturer's selling market is likely to be threatened. The necessity of the manufacturer to carry stocks will create here and there increased opportunity for the retailer to purchase lots of merchandise from owners who may find it necessary to sell on short notice—either due to the need of working capital or to the fear of a change in style. The sales power of manufacturers' brands will prejudice the freedom of the retailers' purchase of this type of distressed merchandise. And, unfortunately, such complete purchasing freedom for the retailer implies the existence of a hazardous sales market for the manufacturer.

If hand-to-mouth buying is to eliminate the manufacturers' ability to obtain long commitments from the retailer, it becomes of paramount importance for the producer to be able to count upon at least the stability of his sales markets. If the manufacturer must accumulate inventories in order to make possible immediate deliveries to retailers, obviously it is essential for him that there

exist some reasonable assurance that the retailers will fill their needs from his stock. The best insurance for the producer lies in an established demand for his product on the part of the consumer; and that demand is likely to be created only by national advertising. Therefore, it is reasonable to say that the elimination of long commitments on the part of retailers requires for the safety of the manufacturer greater consumer loyalty to national brands. As national brands become increasingly onerous to the retailer their maintenance becomes, on the contrary, increasingly important to the manufacturer.

In the effort to reach their desired goals, what roads will the manufacturer and retailer follow? The possibilities are many; the choices can be only guessed:

Will the retailer own or control his own sources of manufacture?

Will the manufacturer own or control his own retail outlets?

Will the manufacturer intensify the present plan of selling direct to the consumer?

Will the manufacturer concentrate on winning the loyalty of the retailer?

Or will the manufacturer concentrate on winning the loyalty of the consumer, thus compelling the retailer to carry his goods?

Will the retailer strive for recognition as a primary source of merchandise through the development of consumer loyalty for his own store brands?

Will the manufacturer assume inventory risks, or will he demand long commitments from retailers and the assumption of inventory risks by retailers?

Will retailers join hands to increase their effectiveness and establish their will?

Will manufacturers join hands to increase *their* effectiveness and establish *their* will?

These are some of the questions which the infant age of merchandising is already raising. Time alone will answer them accurately, unless Time is so disrespectful to a self-appointed oracle as to find the true solution of the problem of hand-to-mouth buying in the answer to some question not listed here at all. The chances of such an eventuality are even suspected of being considerable. . . . But the future always offers the temptation of guessing what may be behind the veil; and for this the present always offers itself as an instrument.

If the questions, which are Time's to answer, are rearranged as they apply to the retailer and manufacturer, it appears that for the retailers the following possibilities are open:

FIRST: Control or ownership of their own manufacturing sources of goods.

SECOND: Consolidation into groups for increased strength and power.

THIRD: Increased effort to win consumer loyalty, thereby replacing national brands by store brands.

If retailers are to control their own sources of merchandise, it is necessary first that they band themselves into some form of consolidated activity. There has been some indication of consolidated activity among retailers, but its development is neither rapid nor free from obstacles. Even, however, if such consolidation were inevitable in the future, this alone would not carry with it the certainty that retailers would or should control their own production resources.

Production and distribution are, for one thing, fundamentally diverse in technique and interest. History shows that usually the control by the retailer of his manufacturing sources has been of short duration and has often been disastrous. The management problems in both types of business activity are not alike. Efficient retailing—particularly under a hand-to-mouth buying plan—has but little in common with continuity of production and low-cost manufacturing. However, even if the retailer could manufacture cheaply and efficiently, there are other, and stronger reasons, for incompatability between distribution and production. If the retailer finds it advisable to have complete flexibility in the time and place of his purchasing, obviously the responsibility for a manufacturing unit

will be inadvisable. The ownership of a factory will create for the retailer the necessity of purchasing at least in one fixed place; and the necessity of production efficiency will require that the timing of purchase orders should take into account the needs of his factory as well as the desires of his retailing. Moreover, with the responsibility for a factory on the hands of a given retailer, buying opportunity alone will not be the only element in determining the direction of his purchasing power.

The pressure of maintaining the factory on a profitable basis, or of maintaining it at least at no loss, will prompt the placing of orders with that factory, even though more advantageous purchases for the retailer should be possible in outside markets. With the assurance of a sales outlet, besides, the standards for manufacturing effectiveness can easily become lax. Style, quality, or value can easily deteriorate, and the store will have to assume the burden, with unfortunate results. If there is any validity in the claim of some retailers that their loyalty belongs entirely to the consumer, then the replacement of that loyalty with one to a factory is likely to decrease the power and truth of the retailer's appeal. The opportunity to increase profits, by adding to the retailing margin the manufacturing profit, will undoubtedly stimulate the control or ownership of some manufacturing by retailers.

But the development will be confined to only a small percentage of relatively staple merchandise.

Except for the few very large retailers of the country, the control or ownership of manufacturing facilities requires some form of consolidated effort. The probability of some and even of marked development of consolidated retail activity is assured for the future inasmuch as it is already a fact in the present.

As in the case of consolidation, the evidences of the retailers' effort to win consumer loyalty lie in the developments of present conditions rather than in future possibilities. It is in the degree to which this struggle will go that the uncertainty of the future alone lies. For years many large retailers have had written, and in many other cases unwritten, policies against the sales promotion of national brands in their establishments. Recently, chain stores have appealed to consumers by means of national advertising to purchase the selection of the retailer's buying experts in place of buying the manufacturer's branded offering on the basis of the appeal built by the manufacturer. The recent growth of attractive buying markets outside of the United States has offered, and will in the future offer increasingly buying opportunities to American retailers. These foreign products are unknown—for the most part—to American consumers; they are not branded. The ready sale of this imported merchandise,

and the replacement of domestic well-known brands by these products, require the lodging of consumer confidence in the retailer. There is little basis for doubts on this subject; the retailer must employ devices which will secure him his community's loyalty to the wares which he gathers from the far corners of the earth and sells with his own brand alone across his counters.

What of the manufacturer during this imminent period? Will he stand idly and calmly by, and observe with detached interest the activities of the retailers? Hardly! For him every move of the retailer is replete with consequences. Not even the most adverse critics of America include in their indictment of the country the quality of passive resistance on the part of business to the circumstances which confront it. American industry has met its problems before.

The strategy which industrial leaders will then call upon will, of course, be determined by the specific needs of the hour. It is not unreasonable, however, to expect that the campaign will be planned to answer at least some of the questions already enumerated.

If the questions which industry is required to answer in the future are rearranged in the form of topics, they can be listed as follows:

FIRST: Control of retail outlets.

SECOND: Development of sales direct to the consumer.

THIRD: Concentration on increasing loyalty of retailer.
FOURTH: Assumption of inventory risks.
FIFTH: Concentration on increasing loyalty of consumer.
SIXTH: Consolidation.

It is fairly safe to assume that each and all of these will represent part of the future industrial development. Some, however, will be limited in application; others will be far-reaching.

For industry as a whole the control of retail outlets by the manufacturer is completely impractical. The control or ownership of retail establishments which would distribute a large percentage of the output of any reasonably large factory would require stupendous amounts of capital. In the case of most commodities, the individual distributor sells only a very small fraction of one per cent of the annual sales volume. Moreover, each distributor carries many items, and any one manufacturer's product is only a small percentage of his total stock. In the case of commodities of small unit price sold through thousands of retailers the control of outlets is absolutely impossible.

As the unit sales price of the commodity becomes relatively large, it is true that the possibility of controlled or owned retail outlets increases. But because the possibility becomes greater, it must not be assumed that its advisability is assured. If the trade name is thoroughly

established, either through patent rights or exclusive design or complete public identification, the plan of exclusive agency is practical. Musical instruments, automobiles, furniture, refrigerators, clothing, washing machines, and other articles can be and are sold by retailers who operate under the control of the manufacturer.

The manufacturer who produces an item which lends itself to specialized selling through his own retail outlets can be successful only if he has enough capital and if he is sufficiently skillful to combine the different management requirements of retailing and manufacturing. In the past, there have been many attempts to combine in one corporation the production and retail functions. Most of these efforts have been unsuccessful; only a few have been very profitable. The chance for success is limited to only a few types of commodities, and the requirements imposed upon the managements have been extremely rigorous. It is not probable that there will be any general development of distribution of branded articles through the manufacturer's own retail outlets.

There has been one method of factory-to-consumer which has, however, grown rapidly during the past five years and may offer the means of factory-controlled consumer distribution. Ten years ago, the plan of house-to-house selling by manufacturers' agents was limited to

magazine subscriptions, books, and a few kitchen utensils. Today there are hundreds upon hundreds of corporations offering their wares on the thresholds of American homes and offices. Hosiery, shoes, and clothing are distributed by considerably over five hundred individual companies. In some cases, the appeal of the agent is supported by national advertising, in other cases the agent stands or falls upon his own knowledge of selling and his acquaintanceship in the neighborhood.

The success of the house-to-house method of selling will depend upon the economy of the device and upon the confidence of the public. In some instances, the plan involves less expense than the time-honored factory-retailer-consumer journey. In many cases, the old-fashioned procedure is still the more economical.

The confidence of the consumer is, however, the prime factor in the determination of the success of house-to-house selling. When a woman consumer buys in a local store, she is confident that a permanent reputation stands behind the merchandise she has purchased. When she buys from an itinerant agent, the responsibility of the seller is uncertain unless that seller has made himself so well known to her as to have created the equivalent of the known address of the local merchant. It is therefore essential that those producers who depend upon house-to-house selling should first create consumer good-will

through national advertising of product, policies, and institution.

Another problem that confronts the user of the house-to-house selling plan is the instability of his agency force. In many companies the annual turnover of selling agents is staggeringly high. In some cases it is necessary to employ annually from six hundred to twelve hundred field agents to maintain an average force of about one hundred. The cost of such a turnover, as high as it is, is surpassed by the instability of the contact maintained through a field representative between producer and consumer. The problem is serious now; if the movement should develop, competition for sales agents would raise costs and increase turnover of personnel.

The limits of house-to-house selling are clearly written in the pages of the future; even the assurances of low operating expenses and high profits will not enable an unlimited expansion of this type of distribution by manufacturers. Obviously, if the movement reached the point of creating a serious nuisance to the average housekeeper, that very nuisance would undermine the consumer's willingness to examine the wares of the sales agent. If the movement reaches the stage of the door-bell nuisance, the bell will define the limit of house-to-house growth.

Communities have local pride. Only in part is this born of inherent pride in the city. Principally, it is created by

the trade intentions of the merchants and local business-men's associations. There is an obvious antagonism between the retailer and the house-to-house seller, and the influence of local patriotic agencies will be directed by local merchants against the house-to-house seller. Although this attitude is natural and significant, it is neither economically consistent nor logical. The "shop-at-home" campaign which promotes tariff walls of sentiment in favor of local goods would, if extended, destroy all local manufacturing that sought national or international distribution. If each community bought only what it made and offered for sale—then the economic situation would revert to the days of the dark ages when each town was a kingdom unto itself. No American, of course, consciously wants that condition; nevertheless, local pride as expressed in the appeal for preference to local products smacks not of national economic isolation but of medieval local urban isolation.

Because of all these counter-factors, the development of house-to-house selling is destined to be limited in its scope and in its use by manufacturers as a means of controlling their own sales markets. Products that are sold direct at no greater expense and with the aid of national advertising or some other means of creating public confidence will probably survive and flourish. Gen-

erally speaking, however, the house-to-house selling method will not replace or even visibly modify the present method of factory-to-retailer-to-consumer.

It becomes apparent, therefore, that by and large the manufacturer must continue to distribute his products through retailers who have no direct financial dependence upon him. Will the producer then place the emphasis of his effort upon the attempt to win the loyalty of the retailer or the consumer?

Undoubtedly, it will be good business for the manufacturer to make use of every possible device to win the enthusiastic co-operation of the retailer. In the past there has been a tendency on the part of the manufacturer to reduce the margin between retail selling prices and purchase price. With increased cost of retailing, the merchant has found it less profitable to carry branded goods. The manufacturer used the increased purchase price or the decreased selling price as a basis for increasing the loyalty of the consumer to his product. If manufacturers feel that it is worth while to cultivate the loyalty of the retailer, satisfactory gross margins available to the merchant must be recreated.

The retailers themselves have been a party to the tendency of branded goods to become less profitable. Price cutting has been a favorite sport, and the game is mostly

played in the field of nationally branded goods, the names and prices of which are publicly known. Reduced prices have increased consumer loyalty to national brands, but they have also decreased the retailer's enthusiasm for selling this non-profit merchandise. Price maintenance has been attempted but not with general success. It is a moot question whether the manufacturer is better off with retailers who sell national brands at full profits or with those who, wishing to discourage the sales of national brands, actually stimulate the demand for them through price cutting and self-inflicted decreases in profits. The alternatives are these: Loyalty of the retailer prompts price maintenance. Loyalty of the consumer is encouraged by price cutting.

In the final analysis, it appears doubtful whether the manufacturer can afford to concentrate his chief effort on winning the loyalty of the retailer. If there is a division of interest between producer and distributor, the latter will always naturally follow his own interests. The producer whose strength lies entirely in the hands of the distributor will consequently have only partial security at best. Such a manufacturer is wide open to competitive attack. Any action which impels the retailer to change his loyalty in his own benefit from one manufacturer to another will leave his old love in a serious predicament. It is, of course, reasonable and proper for

manufacturers to make every legitimate effort to win and hold the confidence and loyalty of the retailer. But it is essential that the manufacturer strengthen his position with the retailer—no matter what that be—by the force he exerts through the consumer loyalty to which he has unquestioned title.

There is one service to the retailer which the wise manufacturer should and will render. If economic conditions should develop into a seller's market, the retailer may have to assume the inventory risk. But for the present and for the next decade, it is likely that hand-to-mouth buying will be firm in its establishment and demands. Manufacturers should recognize that condition and equip themselves to satisfy its requirements. Or, to be more accurate, those manufacturers who adjust their methods to fit the requirements of the inventory conditions of the retailer will be those most likely to win and retain an important measure of the distributor's loyalty. Producers who own complete monopolies can afford to write their own schedule. But those who produce products that are competitive must face the probability that if they do not offer the service of the jobbers for replenishing retailers' stocks quickly, their competitors will. Some manufacturers have already developed an efficient jobbing service. One hosiery company in particular—Gotham—has perfected a plan of inventory service

that has been profitable in its results both to retailer and producer. The plan has possibilities of broad application, and its extension to other industries is likely to be a factor in that most important development of the future—the consolidation of individual industrial institutions into huge powerful corporations.

XI

The Era of Consolidation

"TO merge or not to merge" is the soliloquy of many a prince of modern business. "Whether it is better to suffer the torments of competition and the dangers of individual strength or lose one's individuality in the benefits to be derived from union with other institutions" is the table topic of business councils. The prevalence of oral and written opinions regarding consolidation is evidence of the importance of the question.

The underlying causes of consolidation are imbedded in the ramifications of American economic history, but there probably was never a period in the history of man when some form of consolidation did not exist. It is the problem of existence which keeps men together. Both herds and human organizations are economic answers to the problems of safety and well-being.

It is not surprising, therefore, that business, so important a factor in man's well-being, should follow similar lines of group development. Large size offers industry the elements of strength and security that express themselves in economies and profits.

That this tendency is not new even in this young country of ours is attested by the fact that in that calm and much-upholstered decade of 1890 to 1900 the Great Trust Era was at its apex. So marked, indeed, was the activity of the trusts that the Federal Government found it advisable to protect individual industrial enterprise against their encroachments by enacting the Sherman anti-trust law in 1890. The need of such legislation was, however, a recognition of the power, legitimate or illegitimate, which the consolidation of big business had put into the hands of its owners.

In spite of the restrictive effect of legislative action, the process of creating big business out of little businesses continued in the hatchery meetings of industrial leaders. By 1900, and particularly by the end of 1901, the steel, oil, and tobacco industries had created huge and powerful combinations either for the promotion or for the restraint of trade. Government went back to the rescue; the Sherman act was taken down from the shelf and the dust shaken off; and the courts began to make little businesses again out of big business.

Nevertheless, the natural tendency of industry to build within itself large operating units has been far greater than the trend of restrictive legislation. Industry has continued to develop large units successfully, till today

there are, without doubt, many more instances of combination than there were in 1900. And there is every reason to expect that the movement toward industrial consolidation will not slacken its pace in the years just ahead.

In fact, it is the probability of an acceleration in the speed of the movement toward consolidation that prompts the suggestion that this next decade of ours is to be an Era of Consolidation. All the factors making for combination which are inherent in men and business exist in unabated force. And to these, the developments of the past ten years have added elements which are likely to tip the balance of industry toward group or consolidated activity. Legislative restrictions, indeed, still continue. Some of the types of mergers which industry is building do not, however, run afoul of legislation. Other kinds of consolidation may be hampered, or may suggest the wisdom of modifying the law.

To place the responsibility for jamming the wheels of increased consolidation solely upon federal interference would, however, obscure a major part of the problem of making headway. Other antagonistic forces exist within business itself, and in the psychology of the business man.

Not all business men and economists agree that consolidated business activity of colossal dimensions is so-

cially and economically sound. The pat phrase "competition is the life of trade" sounds its hoarse warning to any movement that restricts free competition. Since one of the cogent reasons for consolidation is often the elimination of some competition, the proponents of merger can hardly defend themselves by denying the application of the adage. There are others who say that big business is not progressive—its very size creates impersonal management and the laxness which results from a consciousness of undisputed power. Impersonal management and laziness encourage waste and inefficiency; and such qualities are said to mark Roman days of decline in industry. Those, finally, whose turn of mind is social, point fearfully to consolidation and Big Business as the Frankenstein which will destroy "equality of opportunity."

These objections, for the most part, are matters of opinion. All the existing facts, indeed, tend to controvert them. Whatever growth has taken place in Big Business does not seem to have thus far paralyzed personal initiative, and does not seem to have closed the gates of opportunity. Nor can it be justly charged that inefficiency and unprogressiveness are in general characteristics of large corporations. In fact, some of the most successful institutions in American industry, both from the point of view of profits and of progressive contribu-

tion to the science of business, are those which can be labelled " Big Business." Certainly it must be said that consolidation has thus far afforded no real basis for fears of social or economic retrogression; and it can be expected that the progress of consolidation will not cease until these social and economic fears leave the realm of conjecture for that of facts. Only when social and economic conditions actually destroy the value of the industrial mergers is there likely to be cessation of their activity.

One of the fundamental reasons, indeed, why consolidated activity has not grown more rapidly is the very fact that individual initiative has not been seriously handicapped by Big Business. Legislation is not required to prevent monopolies of brains, for the very reasons that no one has worked out the mechanism of cornering the particular commodity. American industrial opportunities have grown with such whirlwind speed that to him who could build the best mouse trap, the world and his wife have beaten a path of demand. The romantic stories of the Horatio Alger rises of young immigrants to positions of wealth and leadership tell a tale of opportunity. But they do more than that. They speak of an industrial country still in flux, where those who can pull the gold of a "wanted article" out of the fire of their ingenuity will find as instantaneous success at their feet as if they had touched some Aladdin's lamp.

The future will probably tell the same story in a different guise. When the power of the individual is the dominant characteristic of industry, individual endeavor admittedly wins its own rich rewards. On the contrary, where the group strength of individual enterprises is important for the continued prosperity of each member of that group, consolidated activity is, of course, essential. But the individual in such a group will not really be lost; the call for initiative on his part will not be diminished by the necessity of employing it for a group purpose and in concert with other men's endeavors.

The consideration of individual initiative is bound, however, because of the peculiar nature of men, to be a serious impediment to consolidation. Everyone, or at least every industrial leader, prizes the sense of sovereignty which leadership gives him. To be king, if only over a small kingdom, is sweet, sweeter perhaps than to be second in command of a much larger and more powerful division. Consolidation obviously offers only one seat at the head of the table—and even though it may be a large and impressive table, the other seats around it are not at its head. It is not easy for men who have held the gavel at their own council tables to be compelled to listen to the sound of that gavel in the hands of another. It is not easy for all men, and it is impossible for some.

The prospect of the benefits of group action and consolidated activity fades into an empty mirage when the onlooker sees himself in that vision not as the leader but only as the chief lieutenant. It is often true that the fear of "lieutenancy" is based upon the doubt which exists in the mind of him who is considering merger as to the ability of the proposed chief to run the business of which the "lieutenant" proved in the past to be a real successful leader. More frequently, however, this objection merely masks a natural aversion on the part of a man to giving up his role as the big frog in the little pond for the less obvious honor of becoming something less than the most important frog in a much bigger pond. And because there can be only one head man in the consolidated enterprise, the beach is strewn with wrecks of mergers that never came to port.

Even so powerful a factor as individual prejudices, however, cannot alone do more than retard the progress of consolidation. In the end, a man prefers to live in comfort and luxury as second in control rather than to hold on in despondent grandeur to a tottering and thoroughly decayed throne. If economic conditions make merger necessary for survival and continued prosperity, all individual desires will be swept aside. If the economic reasons for consolidation are fundamentally sound and

sufficiently impelling, then the restraining gates of personal and social restriction will be swept away by the rising tide of merger.

It is, indeed, unnecessary to grope in the darkness of the future for generalizations and possibilities. There are numerous straws in the wind. Already the present offers a convincing array of industrial institutions, many of which have grown in part through merger, all of which are operating upon lines of Big Business similar to those created through consolidation.

To the retailer and manufacturer alike, for example, the growth of the chain store has been of interest. Most modern chain systems are made up of a large number of small units. The larger retail units have in several outstanding instances become linked into large corporations controlling the purse strings, policies and purchasing power of many tens of millions of dollars. Buying associations, to be counted by the score, wield consolidated purchasing power of many hundreds of millions. This method is a direct result of the need for group strength on the part of many miscellaneous businesses. Not being either by nature or inclination, or both, fitted for corporate integration, these individual merchants have availed themselves of one or another form of buying association to meet the competition of the chain unit or to fulfill the requirements of hand-to-mouth buying. The grouping of individual pur-

chase orders, for example, made for price economy. The presence of a representative in the resource market, in addition, reduced the danger of obsolescence because of the possibility of buying frequently small lots of the newest offerings.

For the larger stores which united for research and for group buying, the voluntary association offered several of the advantages of the consolidated unit without imposing the necessity of surrendering individual power to a centralized supreme agency. Like many other compromises, this attempt to sit astride the issue can, of course, be only partially successful. Action in this voluntary association must be continually moderated by diplomacy. Conflicting and independent interests must be kept within the corral of joint endeavor not only through the value of the contribution but by the skill and tact of the diplomat, who must be ready to surrender that part of the program which treads upon the prejudices of any member of the group.

Practically all benefits of consolidation must be somewhat diluted in such an organization. Some can never exist. The use of the best management of one for the interest of all, the possibility of guaranteeing perpetuity in management through the existence of a single responsibility for that management are not to be anticipated in the voluntary group. Moreover, there exists for each

member a definite danger in the impermanence of the association. If the good ship "Volunteer" should founder on the rock of any issue, its passengers are likely to become quite moist. But the danger may begin long before the ship founders. If there is even a possible chance for a wreck, it is unwise for the individual member to forget how to swim, for he may find himself one day in the water of individual effort quite helpless. To delegate functions or to eliminate some part of his own buying organization the lack of which makes each individual business dependent upon the work of the association is beneficial until the association ceases to exist. Emergency recreation of those agencies which the association's work replaced is usually hazardous and almost always unsatisfactory. The alternative to delegating purchasing power lies in each unit duplicating much of the work of the association, and that is wasteful.

Even though—from what has been seen above—the voluntary association seems to offer a relatively unattractive substitute for consolidation, it has, nevertheless, one element of strength that should not be overlooked. Each member store of a voluntary association is likely to be headed by a man whose interest is vital and personal, and whose sense of responsibility for the operating effectiveness of the business is closely linked to a risk of capital. So long as the management is in the hands of the

owners of the business, the individual unit has whatever advantage comes from the close relationship of ownership and executive control.

In a measure, however, this same possibility exists for the consolidated corporation. If the management of each constituent unit is a substantial holder of securities of the parent company, there is at least some element of effective relationship between the needs of safeguarding capital and the administration of the business. Moreover, under this condition the consolidated company imposes upon the management of each subsidiary company the pressure of the success of all the other members of the consolidated family. And usually competition within a group is a more effective stimulus than the responsibility which any one individual may feel toward himself. Group force may not be as comfortable, for the individual, but it is nevertheless likely to be an effective stimulus for good industrial performance.

Besides, when inclination or Time removes the owners of a business from the active management, the consolidated corporation is likely to retain its effectiveness to a much greater degree than will the individual independent unit. The consolidated company is likely to have a fairly large number of stockholders in the management. Continuity of owner-management is safeguarded by numbers and the consequently greater possibility of succes-

sion. The elimination of the owner-management of a single unit may bring about the employment of salaried management; but even then the owner-management of the parent company must retain its protective interest in the destiny of each individual unit because of its possible contribution to the total net profits or losses of the entire enterprise. The safety of the single unit that has come into the hands of salaried executives is beyond the protection of its deceased founders. The continued safeguarding of name and management of each constituent unit is the essence of permanent consolidated effort. It is possible, of course, for both the individual independent and the consolidated corporation to fail, but over the long years of industrial history there is less chance for failure in the well-founded and honestly operated consolidated institution.

It is not too fanciful to guess that many of the retail institutions which have banded themselves into voluntary groups for mutual aid and protection will find that their interests are even better served by transforming their volunteer associations into regular consolidated corporations.

The growth of consolidated activity is, however, by no means limited to the retail field. Manufacturers were actually the first to recognize the fundamental power in consolidation. The chain store movement was still in its

swaddling-clothes when restrictive legislation was frantically protecting its pet brood of independent producers from the trusts.

Even today it is industry which presents the most striking examples of mergers. The United States Steel Corporation measures its asset value as over $1,700,000,000; The General Motors Corporation has a stock market value of over $2,500,000,000; The General Electric Company, $1,000,000,000; The Westinghouse Electric and Manufacturing Company, $200,000,000. And there are scores of corporations that have asset and market values that are around the century mark of million-dollar size.

Some of the large industrial corporations have grown only through their own expansion. Most of them, however, have supplemented internal expansion by the acquisition of other institutions or by consolidation with them. The elimination of competition and the procurement of raw material sources and profits have been the oldest objects of industrial mergers. More recently, as in the case of the National Dairy Products Corporation, The Postum Company, and the General Motors Corporation, the basis of integration seems to have been neither elimination of competition nor the acquirement of raw materials, but the profit-making possibilities in the acquisition of businesses whose types were allied to the parent

company and whose results could be improved under consolidated operation. Economists call those consolidations which are based upon the elimination of competition the horizontal type. They name those which link the units engaged in the production of a commodity from raw material to finished goods, vertical. And as they did not see fit to name the last type, which is prompted by the motives of neither the vertical nor the horizontal, this new type of consolidation may be christened "circular." Vertical, horizontal, and circular consolidation are therefore the three types of merger possibility. Each serves a purpose, and what that purpose is depends upon the conditions which create the need of some form of industrial integration.

If this next decade is to be an era of mergers, the cause must lie in the promise which consolidation holds for either correcting or taking advantage of a condition that exists. The conditions which confront and are likely to confront American business men are the products of the changes that have come over industry in the past ten years. The promise which merger offers has been fairly adequately proven in outstanding examples, even though it has been by no means universally successful.

The more closely the consequences of mass production are viewed, the more complex the problem grows, the more difficult any solution without consolidation becomes,

and, in general, the keener is the business leader's concern.

The burden upon mass production that results from its demand for increased volume obtained at increased sales cost is two-fold: Economies of manufacturing must, in the first place, offset so far as is possible the increased unit costs of sales; and, secondly, the increased production capacity that results from the general industrial acceptance of the need of increased volume creates a steadily growing intensity of competition.

Competition is a ruthless game, and the stakes often mean prosperity for the winners, failure for the losers. To be successful in the competitive struggle, the manufacturer must maintain his production and selling forces at the apex of efficiency. His manufacturing process must be ingenious and economical. His products must be well planned to meet the desires of the consumer, and keep abreast with the scientific or style developments that are most likely to win the enthusiastic purchase applause of the consumers.

The improvement in production technique and in the levels reached by management skill till now has established America as the leader of today's industrial world. The original contribution made by Frederick Taylor has grown to unbelievable dimensions under the industrial leadership of men like Ford. The engineering skill of

some of our large industrial corporations has developed commercial contributions out of academic laboratory experiments. The degree of specialization which has been attained by American manufacturing processes may have been discouraging to the old guild craftsman, but they have been part of the answer to low-cost production. And all of these factors in American manufacturing effectiveness have required large-scale operation. Big Business has been a necessary element to mass production.

As competition increases, the demand upon manufacturing effectiveness becomes greater and greater. The satisfaction of that demand is sought in the more intensive development of those factors which together make up the essential formula of successful mass production. Management must become more skillful, more ingenious, more efficient. New products and improved products must arrive at greater speed from the laboratories and engineering forces of the industrial institution. Manufacturing technique must become more refined and more productive of low costs. Specialization and the elimination of waste assume greater importance. And if these factors require large corporate size for the complete fulfillment of their potentialities, then the industrial corporate unit must grow also.

Growth can come either through the absorption of existing plants or through the building of new plants.

Internal growth presents the difficulty of requiring the selection and training of new managements. Merger offers the opportunity of obtaining already established efficient management. The development of the independent's own capacity, besides, adds to the competitive situation, whereas consolidation usually creates no increase in capacity, and often even decreases competitive capacity through the reduction of the number of independent competitors. If growth of the corporate unit is an advisable development in American economic tendencies, then it is reasonable to assume that merger offers an efficient instrument.

Nor is the wisdom of growth of the corporate unit suggested only by the needs of efficient production. Competition has imposed another requirement on the production agency of America in order to meet the demand for increased economy. Not only must the operating process within the factory be made more efficient, but it has been necessary to include a greater and greater number of steps in the process. Twenty years ago, many manufacturers merely assembled into complete units the parts which they procured from independent suppliers. The rest, at most, manufactured parts of their own product, buying many other parts from outside sources. Today those same manufacturers carry on within their own factories the production of many items formerly purchased.

And some even go back to the raw materials of their production process, including within the confines of one corporate unit subsidiary companies which mine the ore, as well as organizations which manufacture the finished product, sell the completed article, and even finance the dealer or final purchaser. The automobile industry offers the most striking example of this type of industrial development, but the copper and brass industry, the steel and the rubber industries also offer interesting illustrations. Not all industries are fitted to this type of development, but those which are will be gradually impelled toward more and more complete ownership of the entire productive process from origin to end.

Competition in its pressure for greater economy has stimulated this vertical development of industry. The elimination of the profits of independent companies, the saving of selling expense for the producer of raw material or parts, the possibility of more efficient manufacturing through the existence of a closely allied sales outlet created a margin which the completely integrated company could either convert into an additional net profit or pass along to the consumer in some effort to win a competitive advantage.

The amplification of the manufacturing process, too, requires large corporate units. There exist two alternatives: Such units could be built through the purchase

of undeveloped mines and through the erection of plants to produce parts formerly purchased; or the necessary growth could have come through the purchase of existing mines and parts manufacturers or through consolidation with them. The former means increased competition. The latter involves, on the contrary, the elimination of competition and the procurement of specialized and highly trained management. If the entire process of manufacturing is to be combined in one company, then again merger, rather than expansion through the building of new plant capacity, offers the best method.

Consolidation, however, offers the solution of other problems of American industry. In many cases the existence of uncontrolled competitive effort has made profit for some American industries impossible. For nearly five years the textile situation has presented a most unalluring picture. Here and there textile corporations have been successful, but by and large, the entire industry has presented most depressing profit figures to its owners. Decrease of sales and inefficient management have contributed in important measure to the unhappy situation. But the existence of a large number of highly individualized corporate units and the resulting competition have been the fundamental causes of the lean years during which the textile business has starved upon half rations. The need for keeping the wheels and looms

of mills running has encouraged the sale of goods at unprofitable prices. And any bulge in demand that might have been momentarily created has been inundated with a tremendous supply that resulted from the desire of each mill to get its full share of the apparently available sales market. The selling custom of the industry also added to the problem of the mill. The plan whereby the whole sales responsibility is turned over to an independent sales agency—called commission merchant or factor—grew originally out of the necessity of financing the production of the mills, but it has transferred the ownership of the sales market for the products of the mill from the producer to the commission agent.

The necessity of controlling production and eliminating the guerilla warfare that results from unlimited competition actually screams for consolidation within the textile industry of America. Moreover, the wisdom of the producer's possessing unquestioned title to his own sales agency and his own sales market can only prompt the inclusion of the function of sales among the processes of the new consolidated units which are inevitable in the industry. The problem is already serious—almost tragic in New England—and it will become more serious as Europe begins to pay its annual interest charges in the textile values which she is so well fitted to create. With mergers the textile business of America may be able to

prosper; without mergers, its hope of rehabilitation is desperate indeed.

The textile situation is merely the most aggravated case of competitive disease in American industry. As time goes on and the demand for volume continues, the road of consolidation will be more and more frequently trod. Such a road will carry industry to competitive safety, even to the security of monopoly, unless the Sherman Law and the Clayton Act present effective barriers to the development of mergers.

The elimination of competition is, however, not the only goal which lies at the end of the road of merger. Internal effectiveness of management and of production processes will also prompt business men to tread the path of consolidation. If there is any direct relationship between the calibre of management and the reward of high-grade executive skill, the large consolidated corporate unit should be best fitted to procure for itself the best in management. The large industrial enterprise will be able to afford general executives and specialized ability that the smaller independent company cannot support. The degree of specialization in management to which the large unit can carry its plan of organization should exceed that available to the smaller independent unit. Improved manufacturing technique and productive efficiency should follow as natural con-

sequences. The large company can, in addition, support intensive experimental and engineering forces whose work is not concerned with the daily routine nor with the production of day-to-day profits, but rather with the development of some new or improved product which will win the sales markets of tomorrow. The work of the General Electric Company and the Radio Corporation offer examples of what large consolidated interests can do.

Merger offers one other advantage to the manufacturing process. The consolidation of independent factories the products of each of which represent a miscellany that duplicates the sample lines of the others and thus creates the necessity of diluting manufacturing specialization offers the chance for standardizing the production schedule without decreasing the real variety of the sales offerings. Elimination of duplication would be easy for the consolidated company. Individual plants could concentrate upon one line of allied products with the advantage of manufacturing economy. Variety could be maintained through the contribution made to the sales organizations by all the plants. Manufacturing efficiency could be promoted by limiting the activity of each plant to one or to a few standardized products. For those who are acquainted with the actual operation of successful consolidated companies, reference to this process of manufacturing must sound like the dullest of plati-

tudes. Nevertheless, platitude or not, the contribution which merger can make to the manufacturing economy is sufficiently important to make reference to its details essential in any consideration of consolidation.

And still the roll call of the possible advantages of consolidation is not ended. The elements prompting favorable consideration of industrial merger thus far considered have been in existence for many years. There are other and far more recent factors making for consolidation in the present-day problem of sales.

What can mergers do to improve the good and offset the evil of the selling methods which mass production has induced in industry?

The consumer's interest puts a premium on the ability to produce the new and the stylish; and the consolidated company can eminently afford technical organizations for the development of products which can sustain the flagging buying spirits of the consumer. The large size of the organization enables it to experiment in the production and sales of new products for which a demand must be developed at some considerable expense and over a period of time. The independent company whose products are confined to only a simple line or to a very limited line of sales offerings, on the contrary, is compelled to be careful in the exploitation of any item which is to replace some existing product; and the company

whose financial resources come from the production and sale of only few products cannot afford to invest as much capital in the development of a new product as the large company whose income is derived from many sources. Undoubtedly, in the development of products from which profits may accrue only after years of effort and expense the large consolidated corporate unit has a marked advantage over its independent competitor.

The consolidated company also offers material benefits to its owners in dealing with hand-to-mouth buying. In order for the producer to circumvent the retailer's increased antagonism to national brands, it is essential for him to accept the inevitability of hand-to-mouth buying and adjust his methods accordingly. If he does not, the jobber will come into existence, and the addition of the jobber's expense and profit to the cost of distribution will give the advantage either to the manufacturer who can eliminate this agency or to the retailer who can buy without recourse to an intermediary.

For most individual manufacturers the warehousing of products at strategic points over the country will be impossible because uneconomical. If the jobber maintains stock, then the chain stores that can replace the jobber's warehouse by their own distributing centers will continue the destruction of their independent competitors. If the manufacturer is desirous of maintaining

the loyalty of the independent retailer he must aid in the survival of that retailer and then render service to him. The mechanism by which the manufacturer will offer effective and constant service will be some plan which will make quick deliveries to the retailer possible. If, however, the manufacturer is to maintain warehousing points, he must carry enough lines to make their operation economical; and such procedure requires the consolidation of many products under one control. Once those products are allied, the producer can intensify his service to the retailers by making actual periodic deliveries to their very doorsteps.

In products like food-stuffs and drugs it is possible to imagine weekly deliveries made from trucks radiating from central points and making direct deliveries of several articles at one time. Even if such intensification is not subject to general application, the need for some device to make quick replenishment of retailers' inventories possible is an essential consideration for all industry.

In products that depend upon the sale of small amounts to thousands of retail outlets, the practical value of consolidation is especially striking. Not only is merchandise delivery service made more possible, but the power of the manufacturer over the retailer is greatly augmented through the consolidation of many products under one

ownership. If the retailer's enthusiasm for national brands is beginning to cool, the manufacturers must increase their efforts to strengthen the power of their brands. Consumer loyalty, in the first place, may require special stimulation through advertising, and the consolidated company through its superior resources and through the multiplicity of its sources of income will find it more possible than the individual manufacturer to maintain a promotional campaign of one line of products, even if that campaign is conducted at a temporary loss.

A second advantage of consolidation against the retailer is of equally great importance: Except in a very few instances, at present, the average retailer and certainly the large retailer or chain organization can afford to eliminate the products of any one manufacturer if terms and conditions are not satisfactory. But once the retailer is aware that by an unreasonable demand upon the producer he jeopardizes his source of nine or ten important products which he needs for his consumers, he will be obviously less prone to eliminate any one of the producer's offerings without careful consideration. As retailers ally themselves and consolidate their purchasing power through chains or associations, united force on the part of the manufacturer becomes an additional consideration. His security lies in meeting united strength with united strength. The manufacturer-retailer prob-

lem springing from obsolescence and its result is thus clearly an especially potent factor in consolidation.

Merger also opens another possibility for the solution of the problem of distribution. Manufacturers of specialties have in the past developed individual advertising campaigns to win consumer loyalty, and highly specialized sales organizations to sell their wares to the retailing outlets. The individualization of advertising should, of course, continue. Singleness of appeal is an essential element in advertising psychology. A combined appeal to the consumer to buy tomato soup, beans, and pickles of one brand is highly inadvisable; a single appeal to buy a Buick, a Cadillac, and a Chevrolet would be fatal. The consumer can be interested in only one product at a time.

In other ways, however, it is probable that consolidation can aid in the reduction of the high selling costs prevalent at present. If a number of specialties appealing to the same sales market were merged, it would be possible to consolidate many of these items into one sales effort. The salesman who calls upon the small merchant to sell him product A could under consolidated activity also offer products B, C, and D, each of which formerly required special visits by three other men representing three independent companies. The danger of this procedure lies in the elimination of specialized effort

on the part of the sales force, and the resulting possible decrease of sales of each of the former independent products; but this counter-factor may be offset if the central sales office maintains a specialized effort. Even if there is some decrease in sales, the plan is still economically sound, if the saving in expense does more than neutralize the losses resulting from decreased sales.

On second consideration, however, it may even be possible that such a procedure will increase rather than decrease the sales of the individual brands of the consolidated company. In the first place, there is in consolidation the possibility of selecting the most efficient salesmen out of each of the formerly independent companies. The increased opportunity for sales and income should, in the second place, make it possible for the merger to obtain and hold a more efficient force. And, finally, consolidation will smooth the path of the salesman to his customer. The higher-grade salesman of the consolidated company will be able to approach his customer with the protection and guarantee which the control of ten products in demand can give. As an independent seller of one specialty his strength depended only upon his selling ability and the appeal of his one product. As the sales representative for ten important articles, his good-will will be of real importance to the retailer. And the actual need for seven of the seller's

articles will most likely furnish attentive audience to the story of the merits of the other three. Undoubtedly the sales power of the manufacturer as well as his efficient use of the machinery of distribution will be augmented by consolidated effort; and so the problems of distribution add cogent reasons to the opinion that we are entering an era of consolidation.

For the producer of reasonably high unit priced (from $5.00 up) articles of fairly general consumption two devices are open. One is the use or the intensification of the use of national advertising; the other is the inauguration by the manufacturer of his own retail outlets. In the case of automobiles, ownership or even complete control of the retailing outlet is both practical and advisable. The loyalty of the ultimate purchaser of an automobile has been created by the manufacturer and belongs to the manufacturer.

The dealer is clearly recognized as merely the agent of the producer and advertiser. Automobile mergers can, if necessary, go through the whole gamut of the industrial process from the mining of ore to the financing of the consumer's purchase.

As the unit price decreases the problem of the single ownership of production and final distribution becomes more difficult. The control or ownership of the entire sales market of furniture, shoes, or clothing requires both

an extremely large number of retail outlets and the existence of an enormous degree of consumer knowledge and loyalty, to be created through national advertising. If consolidation of production and distribution should be found advisable, the retailer, particularly of large size, can himself procure manufacturing facilities and is unlikely to pay much for the good-will of an established factory—the going character of which can be made or broken by the power of the retailer.

Besides, as has also been mentioned in an earlier chapter, there are three other difficulties involved in the consolidation of production and retailing. The first is the necessity of the producer who seeks his own outlet to procure his entire sales market, for he is sure to lose the loyalty of his former uncontrolled sales market, with which he now has to compete. The second is the difficulty of organization involved in the combination of the management problems of production and retailing. And finally, if there is real value for the retailer in maintaining complete flexibility in the use of his purchasing power, it may be unwise to crystallize or tie up a large part of that purchasing power by assuming the responsibility for a factory overhead.

In spite of such disadvantages, the plan of consolidating distribution and production has possibilities of development. If the problems of management can be

solved, there are some substantial savings available in it, in the same way in which there are savings for the producer who procures ownership of his own sources of supply. Although the plan has had some failures, it has been tried successfully in several cases. Undoubtedly it will be tried in many others, and undoubtedly it will succeed in some instances. But the difficulties in the way of a combination of distribution with production are too great to suggest any general application of the plan to industry as a whole.

Retail mergers will continue to develop although they are not likely to do so on a large scale along vertical lines. There has been a tendency on the part of chain stores to produce their own goods. But most of the development has been in increasing the force of purchasing power rather than in transforming that buying power into production. Until the chain stores adopt some method of convincing the public that their own brands are as good as or superior to the manufacturer's nationally advertised product, their own products will fight a losing battle. And even if the retailer succeeds in winning the loyalty of the woman consumer to his own brands, it, again, is by no means clearly advisable for him to substitute the chance for production profit for the benefits of a completely flexible buying market.

Retail mergers will continue chiefly because they offer

management efficiency, overhead reduction, and the economy of purchasing in large volumes. The growing power of existing chains will impel independents toward consolidation as a means of self-protection. The need for rapid turnover as a result of obsolescence will enforce consolidated buying through centrally located buying offices. The growth of buying opportunities in foreign markets will require buying representation in all parts of the earth. Large-scale operation is necessary for the realization of all such buying possibilities, and large-scale operation will be most effective not through the building of an unlimited number of new retail units, but through the consolidation of existing stores and chains.

The chain grocery store systems have reached an interesting stage in their development. The days of competition with the independents are reaching an end. To-day, the grocery chain unit is competing with other grocery chain units. This is particularly true in the metropolitan areas. Operating economy and purchasing power on one side are competing with equally effective economy and buying power on the other side. In their struggle for sales, the extravagances whose elimination was part of the basis for chain store success are slowly seeping back. Charge accounts and deliveries are now not uncommon in the "Cash and Carry" units of Greater New York. Rising overhead expenses, decreasing profit percentage,

and the need for even greater purchasing power are encouraging the opening of new units. Competition for space raises rents and decreases the sales market of each store. Increasing costs and decreasing profits result, and these become the causes of another drive for more units.

Such a vicious circle can have but one end. Its end depends upon mergers of existing chains and perhaps upon the change of the type of the grocery store unit from a small inexpensive unit to a larger more expensive store the building of which will require substantial amounts of capital.

The growth of chain systems, therefore, is by no means a story told. But enough has been said to indicate that the chain system will not be the final unchanging answer to the problem of distribution. The chain system will grow and it will prosper; but it will alter both in character and in size as it develops inevitably out of its own nature new conditions requiring new solutions.

The discussion so far has been limited primarily to the industrial and commercial factors involved in mergers. As important as these are, there remain at least two other elements which favor the growth of consolidation.

There are personal reasons why consolidation is likely to increase its speed of development. And there are financial stimuli to the movement.

To the individual owner of an independent business—

no matter how successful—there are telling personal arguments which the proponent for merger can present. Every builder of a business has a justifiable pride in the monument that he has constructed. If he has male issue that gives promise of maintaining the business successfully through the probable conditions of tomorrow, the individual owner may have no fears for the perpetuity of his business. If, however, there is no family succession to which to look forward, the merger offers a fair insurance for the continued successful management of the business which was created by its founder's thought and strenuous effort.

Very often, too, the major part of the owner's fortune is in the bricks, mortar, and earning power of his business. The risk may be fairly good, but after all, his business may be destroyed by a single disaster or by the rule of an unwise management. Merger affords to the owner of an individual business an opportunity to distribute his risk through stock ownership in a company that owns many plants and produces many items. Moreover, if there is economic validity in consolidated activity, the risk of the owner of a business is buttressed by whatever strength that economic validity offers to the consolidated company of which he owns a part.

To the owner of a business that is profitable but not of fairly large dimensions, the consolidated company

offers an advantage which is of personal nature but which is financial in form. The large company usually seeks capital from the public. The process makes expansion more readily possible. But as a result of the process the securities of the company have a market value which makes conversion of an individual's stock holdings into cash readily possible. The sole owner of a small business can procure cash only if he sells his enterprise in whole or in part to some interested party. The consummation of such a transaction requires the discovery of some especially interested buyer; otherwise an unattractive forced sale results. The exchange of the stock of the small company for the securities of the large company usually creates for it a continuous market value, advantage of which can be taken at short notice and with beneficial results. Not only does the realization of cash become a relatively simple matter by such an exchange, but the value of stock thus exchanged is likely to be greatly enhanced by popular enthusiasm that expresses itself in creating a good-will value in the price of the stock of a large company.

Although the success of consolidations will be dependent upon the economic foundations upon which they are built and operated, one of the important factors in their promotion, as may be seen from the above description, is purely financial in character. It is unfortunate

that in many cases consolidations have been built for only financial reasons. Where the operating methods have remained uneconomic in their character, the financial strength of the consolidation has soon disappeared. Where the economic strength was subsequently developed in a consolidated company that was originally formed by motives of financial profit, the consolidation has, however, been successful and the profits have continued to satisfy the monetary basis of initiative.

It is, of course, to be hoped that consolidations will not be built upon the short-sighted motive of a quick profit for the promoter who fits together the constituent parts into a consolidated whole. The public investor is interested in consolidations. For him the merger presents the promise of increased profits resulting from consolidated activity. For that reason the securities of companies that are put into one parent corporation are usually readily salable to the public. The unscrupulous promoter and banker can, therefore, easily gather under one company name cats and dogs from the same industrial alley, sell the forged pedigree for millions and leave the public to watch the consolidation dissolve into a loosely knit group of unsuccessful enterprises.

By the same token, it must be apparent that legitimate enterprise can link together a group of independent companies that are strong in their management and

evolve in that manner the strength and power of consolidation. The public will readily provide most of the funds on so attractive a basis that the builders will be able to make for themselves and their original stockholders huge profits that are legitimate as well as substantial. The promise of such profit will promote consolidation.

The public participation in the stock ownership of an industrial institution offers other attractive bases for consolidation. If, for example, the X company already has its securities listed upon the stock exchange, it can purchase other existing companies for cash or stock. If cash is required, the treasury may furnish the funds, or the public will provide the capital on a basis which shows a substantial profit to the stockholders of the purchasing company. If the new company is purchased for stock, the quasi-public company has a tremendous financial advantage over the institution whose securities are closely held by a few private individuals. By quasi-public company is meant any institution in which a minority interest is owned by the public and the control of which is held by the management.

When two private companies discuss between themselves the possibility of merger, the basis of consolidation usually is determined by the assets and earnings which each will contribute to the whole. When a quasi-

public company is considering the possibility of buying a privately owned company it has the choice of paying cash or using its own stock as equivalent to cash. If the purchasing company pays cash, it can obtain the cash from the public either through the sale of a low-yield preferred security, or through the sale of common stock upon an attractive basis. If the deal is consummated upon the basis of securities, the purchasing company can usually use the market value of its securities as the equivalent of cash. And experience has taught that as a result of either method, the parent company adds some value to its own holdings for which no corresponding amount in cash or stock was paid. It sounds like something for nothing. In a way it is; but really it is something for something. The selling company receives a good price in cash, and the buying company raises that cash at low prices through the good-will it has created in the minds of public investors. Or the selling company contributes assets and earnings for stock, and the value of that stock has been raised to such a point by public confidence that the percentage of the consolidated company's stock given to the selling company is actually somewhat smaller than the percentage of profit contributed by the selling company to the whole profit of the consolidated company.

There are times when the quasi-public company will

purchase some competing or allied institution that is making a small amount of profits or even no profits. Usually the reason lies in the expectation which the parent company has of increasing the earning power of the purchased company. The same expectation explains the reason for those purchases of individual companies which the consolidated corporation makes at seemingly high prices. The reason for both the unusually high price and the purchase of no-profit companies lies in the probability that more expert and aggressive management plus the advantages inherent in the actual consolidation will convert a loss into a profit or transform a small profit into a much larger one. The consolidated company having many strings to its bow can afford both the experiment and the money and time necessary for this development.

The day of industrial giants is arriving post-haste. The reasons for industrial consolidation are so impelling that most of the obstacles to it seem by contrast only molehills to be crushed under the steam roller of economic inevitability. Economically, consolidation is sound. To the individual owner of business it offers safety and profit. Financially, it has no reasonable limit and can be productive of great profits. Such a triangle of forces presents a solid base indeed for the construction of new giant industrial enterprises.

What the character of the consolidations of the future will be it is not difficult to say. All types, no doubt, will be common in this next decade. Where competition requires the linking of all of the production and distributing processes, vertical merger will be the rule of industry. Where competition has reached a dangerous point in the profit possibilities, or where size is necessary for increased productive efficiency, horizontal consolidation will be the prevailing type. Where the problem of distribution and the opportunities for profit through the use of highly skilled management suggest industrial integration, circular consolidation will be an outstanding development.

Nor can one write finis at this point. It is likely that no matter which phase of consolidation is the starting point, to a measure at least, all mergers will tend to include the full roster of types, combining those features of circular, horizontal, and vertical integration which will offer the greatest competitive advantages and profit possibilities.

In this era of merger that has already made its debut the social problem of the individual and the legal problem of control are likely to be extraordinarily live issues. Since the social aspects of industry are not within the scope of this volume, the problem of society is offered to those sociologists who feel qualified to discuss it. So

far as the legal aspects are concerned, the conviction that the purpose of law is to codify those measures which will insure the well-being of man affords a basis for the expectation that government will adjust itself and its statutes to the needs of the day. And among those needs stands in bold letters the economic wisdom of industrial and commercial mergers.

XII

The Battle for Consumer's Loyalty

THE struggles between nations are not limited to the battlefield. The competition for the trade of the world has been largely bloodless, but it has maintained an almost continuous battle, the rewards of which were wealth, sometimes booty, the weapons of which have been gold, ships, men, and brains. Sometimes flags and guns have been added to this arsenal of trade, but for the most part the struggle has been peaceful although none the less intense.

The same competitive spirit expresses itself in the internal struggles of a nation. Men vie against men, trade vies against trade, area against area for the winning of business advantages. Florida or Southern California, each tells the same tale of its perfection for the tourist. Coal and oil struggle for the privilege of keeping America warm. And the competition between the products of men fill the magazines and newspapers with printer's ink representing a billion dollar revenue for the advertising media of the country.

Such an annual expenditure would provide financial

sinews for a fair-sized war in which blood and flesh were the pawns. And even though industrial competition ordinarily employs no actual instruments of death, it does nevertheless make use of almost every other weapon for attaining its objectives. And high among these is the loyalty of the consumer as expressed by the direction of his purchasing power.

The rivalry for the consumer's loyalty, however, like many more sanguinary struggles, often makes strange bedfellows. War frequently brings together allies whose interests find their only common ground in the struggle itself, and whose national and personal attributes are otherwise as opposite as night and day. Whereas national wars, however, are likely to link allies at least for the course of the conflict, the industrial struggle can make today's enemy tomorrow's ally; and today's ally tomorrow's enemy. But that does not tell half the story, for the battle for consumer's loyalty will be made up of a series of constituent subsidiary battles, so that the allies who embrace each other in one corner of the battlefield may be engaged in a strenuous wrestling match in the opposite corner.

It is a curious conglomerate picture that this impending struggle is likely to present. Its extraordinary contradictions and lack of unity in the personnel of the antagonists are born of the variations in interests which

make those who are allies in one respect competitors in another.

Competition for the consumer's loyalty is, of course, not a new phenomenon. It is the likelihood that the intensity of the competition will be greatly increased in the near future that suggests that business is inevitably drifting towards a Battle for Consumer's Loyalty; and since those are to be days of titans in industry and commerce, the altercation that among pigmies raised little dust, may obscure the sun. And when it is realized that the need for power to fight for consumer's loyalty will be, in part at least, responsible for the development of this giant race, it is not too much to expect that the big fellows are likely to be influenced in their actions by their competitive origin.

With the increase of the productive capacity of the country, industry intensified its interest in the consumers. Sales mechanisms were developed to educate and quicken the tastes of the purchasers. The success of the process has been marked, but it has also raised the consumer to the position of an autocratic connoisseur granting a life of prosperity to those whose offerings pleased, and imposing a sentence of depression upon those whose contributions found no favor.

The consumer's favor is an essential boon to the well-being of all who are avid for the honor of supplying

him "by special appointment." His is potentially the power to make or break. His is the power of industrial life and death. A terrifying force is the consumer's preference; and he who lives beneath its influence must study carefully to offer what will please—or, otherwise, to pour into the consumer's ears a song of such dulcet tones that he will be pleased with whatever is offered.

This task would be relatively simple if the consumer's desire were the only factor in the problem. Almost every man can without much difficulty spend Midas's income and still find some wish that has been signally unfulfilled. But only a few American consumers have the income of Midas. They have appetites that far exceed the revenue which the production of the country drops into their particular purses. When the family budget allocates twenty-five per cent of its income for rent, that decision snatches an equivalent portion of the family's purchasing power from the reach of all those who would sell it clothing, food, amusement, or transportation.

Nor is the dependence of business upon the ultimate consumer limited only to those who complete the final sale to the consumer. All producers of consumer goods are ultimately dependent upon the purchase of their goods by the consumer. Sales to retailers are short-lived once the goods do not move from the retailer's

shelves to the consumer quickly and with profit. Even railroads and builders are affected by the proportion of the consumer's purchasing power which is spent upon their roads or to the benefit of their tenants.

What is it that represents the perfect gift of the consumer to a particular industrial unit? If the days of fairy tales could live again, and some knight of Industry after having rid the kingdom of a pestilential dragon were allowed only one wish, it is not difficult to guess the nature of our hero's request. "Give unto my type of product your undivided purchasing power, O King Consumer, and recognize that my own brand is the best in the field."

The first part of his plea would be of special importance in the present state of industry. Among the clothing manufacturers and textile factories one hears a good deal about internal competition, but one hears much more about the effect of the automobile business upon the sales of clothing. It is not infrequent to hear, "People spend their money for automobiles, they are not interested in clothing; and even if they are interested in clothing, after they have bought an automobile, they have no money with which to buy suits, coats, and shoes." Grant a clothing manufacturer the power to influence the direction of the consumer's purchasing power, and he is certain to create an overwhelming desire upon the part of

the American public to spend its whole income for clothing. Give the textile manufacturer his choice, and he will not choose the destruction of all competitors, but the use of the consumer's purchasing power to buy dozens of suits for every man and scores of long, dust-collecting dresses for every woman. The daily prayer of many a harassed fabric maker is for the Parisian stylists to add a mere three or four inches to the length of skirts.

It is curious that the term "competitor" has in general so limited a meaning. The average business man thinks of his competitors as those other business men who are offering similar products to his and to the same sales markets that he is trying to win. In a sense he is right, but only in a sense. For in some respects the "competitors" who are in the same line of business are allies rather than antagonists. They, just as he is, are trying to create a demand for a similar type of product. Each is, of course, anxious to satisfy the demand himself. But in either an organized or, more often, an unorganized way—all people of the same line of business are doing some promotional work to increase general consumer interest in the same type of product. If the effort is successful, the pie is large, and each participant can cut himself a generous portion. If the effort is, on the other hand, unsuccessful, even price cutting and clever selling

tactics will not be sufficient to extract more than a meager slice from the shrinking market.

The chief competitors of one business unit therefore are the other business institutions that entice the consumer dollar away from the former's item to their own products. When the public demand is as fixed as it would be for Epsom Salt or sweet-spirits-of-nitre, the automobile manufacturer is obviously not a chemist's competitor. But in the case of products for which demand is elastic and depends upon the public interest, the sales promotional activity of the producer of one type of product is exerting itself to the utmost to attract the consumer's purchasing power away from all other types of products. Competitors of one another are all business institutions that strive to acquire the consumer's loyalty as expressed in the direction of his purchasing power. But the unity of interest that exists among those who make or sell similar products does not exist among business institutions each of which is doing its best to influence the consumer to spend his funds for a particular type of product.

The nature and instability of the contestants for consumer loyalty is further complicated when the retailer throws his hat into the ring. Obviously, the retailer who sells carpets finds himself in complete sympathy with the carpet manufacturer who is doing his level

best to persuade people that floor coverings rank first as a necessary and desirable product. But it is also clear that when the producer tries to direct that consumer's loyalty to the X. Y. Z. brand of carpets of which he is the sole producer, the retailer's sympathy can easily disappear and may be replaced by some element of antagonism. The retailer may have discovered at home or in Arabia some producer who from a need of capital, through low cost production, or by means of price cutting, is willing to sell his output at prices which would give the purchaser a competitive advantage and a wider margin of profit. If the consumer who walks into the store has a fixed loyalty for the X. Y. Z. brand, the attractiveness of the store's special purchasing discovery is likely to wane, and as a result the prospect of ready sale, good value, and long profit may be replaced by inventory the disposition of which may require an unprofitable sales price to overcome sales resistance.

So long as retailer and manufacturer think, talk, and act in terms of developing demand for general classes of products which both sell, they can and are likely to travel as companions between whom there is that strongest of bonds, mutual interest. But once let the conversation and action become more specific and be directed toward particular brands within each class of products, and that bond may have to undergo a tremendous

strain as each party strives to follow the road of his own interest.

Attention has already been called to some of the factors which may be responsible in the future for a marked and even radical division of interest between the manufacturer and retailer of similar products.

If the retailer's institution is a distribution depot for manufacturers' brands, the retailer may find his goodwill an impermanent possession. He holds the consumer's loyalty in trust for the manufacturers whose products he is distributing. The public demand becomes a specific request for a particular brand; the public's loyalty is, therefore, to the manufacturer of that brand. So long as the retailer remains the distributing agent for the nationally demanded brand, consumers will buy from him, if he is conveniently located and if his selling service and prices are attractive. But if for some reason that agency is transferred, the consumer loyalty, in part at least, may be transferred to the newly established agency. The retailer, having a natural desire to be a principal and not an agent in the ownership of the goodwill and desiring unquestioned title to the loyalty of his consumer, cannot be condemned for looking with misgivings upon the alienation of the affection of his customers by the substitution of loyalty to the manufacturer for loyalty to him.

Even where there is no probability that manufacturers' brands will seek new homes on the slightest provocation, the problem of national brands for the retailer is by no means solved. The retailer in many instances is top-dog. This is particularly true of the retailer's relationship with those manufacturers who are small in size, insecure in financial stability, and unorganized in group action. To be top-dog affords the opportunity for crushing action; it also gives one a feeling of security. If national brands continue their astounding growth both in power and extent, the retailer will find that the ownership of consumer loyalty by the manufacturer may make the first, last; the top, bottom. If manufacturers can enforce their will, the retailer loses that powerful position which is perhaps socially unfortunate, but is economically so comfortable for him.

There is another reason for the retailer's concern in the growth of national brands. It was in part touched upon before. As the consumer's demands become concentrated in the channels of national brands, the assortments of the retailers will become more and more standardized. Differentiation between individual retailers will, therefore, be limited to service facilities and to price. Increased service means greater expense; price cutting means smaller gross margins; both increased service and price cutting result in smaller net profits.

And that result has never been known to throw its recipients into a delirium of elation.

The growth of retailers' consolidated purchasing efforts and the development of hand-to-mouth buying have added fuel to the fire of the competition which exists between retailers and manufacturers for consumer's loyalty. Buying power seeks products and markets which offer an advantageous price differential. Price maintenance on the part of national advertisers discourages the conversion of advantageous buying power into advantageous competitive retail values to the consumer. Price cutting that is not protected by equal buying advantage always means a diminishing net profit. National advertisers can withstand the ravages of consolidated buying force more effectively than the unarmed products of the non-advertiser. Such protection against the power of the retailer is a desirable quality for the producers, but it is a burden upon the retailer.

If the public insists upon a particular national brand and will accept no substitute, the retailer is limited in his use of foreign markets which can supply "something just as good" but less expensive, or more profitable. To the extent that the retailer can depend upon the loyalty of his customers to his own products, only to that degree his purchasing freedom is unhampered.

It is difficult, therefore, to dismiss the case which the retailer may have in his own interest against the national brand. But the existence of a good case does not require the dismissal of an equally good case for the manufacturer's interest in national brands. The very reasons which prompt the retailer to seek consumer's loyalty for himself, impel the manufacturer of the national brand to secure the perpetuity of consumer's loyalty to his brands.

It is not enough that the manufacturer should rest secure in the noble conviction that he, and not the retailer, has developed the existing demand for the products which today are familiar to the consumer. There may be consciousness of a work well done in the realization that the packaged and canned food products of America have conserved crops and added tremendous variety to the diet of American people in and out of season. But from an industrial point of view the producer cannot call it a day and live in false security the rest of his life.

In most cases, the producer of consumer goods must depend upon independent retail outlets for the marketing of his products to the final consumer. If the retailer's interest in national brands is to be subject to a process of disaffection, the manufacturer will have to

do his utmost to insure that interest; and insurance for the producer always lies in the existence of a consumer demand that cannot be denied by the retailer.

Consumer's loyalty is the touchstone of industrial and commercial strength and security. Not all can possess it. Some industries are compelled to seek their chief sales strength through industrial thoroughfares that never cross the crowded paths of consumer markets; and even those who have a right to demand consumer loyalty, cannot limit that claim to an empty invocation that asks simply because there is an assumed sense of the consumer's obligation to give, or that asks in the vain hope that a loudly shouted request will through its very din obtain what has not been actually deserved. Quality and value, style and dependability, utility and desirability, make a sextette of qualities which must accompany every claim for consumer loyalty which is effective.

The country will witness a curious alliance—in which friends and antagonists indiscriminately combine—when the two sides begin to wage battle for consumer loyalty, and not even the basic earnestness of the struggle can wholly remove the light-opera aspects of the situation. It was not so long ago that all circuses and most vaudeville programs were incomplete without a company of Zouaves. Dressed in their blue coats and red breeches,

these highly trained "soldiers" performed stupendous convolutions in close order formation. At each sound from the whistle of the leader, wheels, squares, squads, or pyramids followed one another with dizzy speed. No one man seemed to be a permanent part of one squad. Each time he joined new companions to complete the base of the pyramid, the spoke of a wheel, or the side of the square. The day of the red Zouave on the stage seems to be over; but his memory still survives in the college bands that spell out the names of alma mater and opponent between the halves of a football game. But the personnel of the S of dear old Siwash may be completely reformed in the I and the W. In the interest of proper and effective spelling, the immemorial companionship of the bugler and the drummer may be temporarily broken. And it is likely to be the same sad story with business. A change in the basis of interest, whether mutual or self in nature, will in most cases sever even the surest of Damon and Pythias associations.

Manufacturers—no matter what their previous relations—will combine as a group to oppose retailers as a group in the claim for consumer's loyalty. It will be a matter of mutual interest for producers of all articles—competing or non-competing—to educate the public to buy their brands. They could say: "Buy our brands, responsibility for which each manufacturer feels, upon

the quality and value of which each producer is dependent for his place in the sun. Such responsibility and such dependence assure the consumers of the producers' good faith. With the manufacturer's reputation at stake, consumers can rest assured that the product which carries his name will do its best to merit continued patronage." The promotion of national brands is certainly a matter of mutual interest to all manufacturers whose products are finally presented to the consumer.

Retailers, on the other hand, have an equally unified interest in combating this appeal. In their pronouncements to the consumer they could insist: "We as purchasers have no factory to fill, no product, therefore, to justify or maintain. We are only purchasing agents for the consumers, hunting over the whole earth for what is first in quality, desirability, and value for you, assembling these offerings of the world in places where they will be easily available. If today's offerings by an unknown producer surpass those of manufacturers whose name and goods are well known the retailer, if he serves the consumer wholeheartedly, will choose and should choose the better even though unknown product. Your retailer is your buying agent and pursues your interest solely. Test him well, and, once satisfied, give him your undivided confidence. He will continue to serve you efficiently and economically." For the retail-

ers as a whole—or rather for those retailers whose size and purchasing power make them significant factors in their communities—there is a mutuality of interest that suggests nothing less than a permanent form of allegiance.

There is certainly, therefore, basis for the assumption that interests of retailers and manufacturers are such as to create unfaltering allegiance between the members of the manufacturers' group, on the one hand, and between those of the retail group on the other. But again the whistle of economic interest sounds and the formation of allies and opponents is broken up, the members scatter to form new alliances and new antagonisms.

As was seen before, the manufacturer and retailer of clothing, for example, have a mutual interest that is sharply in conflict with the interests of the producer and seller of automobiles, food, or furniture. In the effort to persuade consumer's loyalty to express itself in the purchase of totally different types of products, there is far more conflict between various manufacturers than there is between the producer and seller of the same type of product. When the battle is waged to win consumer's loyalty to products that compete for a place on the family budget, the industrial antagonism is likely to be such as to suggest an alliance of producer and retailer

of the same article against producers and retailers of other articles.

Not even yet, however, is the story of the battle for consumer's loyalty fully told. Self-interest a third time gives the signal, and the forces of allies and opponents alike break ranks to engage, this time, in a free-for-all for the blue ribbon of consumer interest. Each manufacturer who is willing to admit that his type of product deserves the consumer's special consideration at the same time does not want it forgotten that his own particular brand of that type of product is the best and merits the consumer's first and most lasting loyalty. Each retailer, likewise, who might very well agree as to the place which he and his brother retailers should hold in the consumer's heart feels compelled to admit at the same time, modestly to be sure, that the place in the very center of that heart, should by all rights be reserved for himself alone. And so what was seen as a battle of groups for consumer's loyalty is in the twinkling of an eye transformed into an individual competitive struggle in which everyone thinks of himself alone. Such transformation does not, of course, mean that the new order will replace the old one in point of time. All three forms of struggle—manufacturer *vs.* retailer, manufacturer and retailer *vs.* manufacturer and retailer, and individual institution *vs.* individual institution—will be maintained simultaneously,

the nature of the struggle in a particular case varying with the needs and possibilities of the moment.

War and competition, however, both require more than armies and antagonists. Weapons have been an essential part of all competition since bare hands became obsolete. In the battle for consumer's loyalty, salesmanship will furnish the instruments with which all groups and individuals will be provided. The armory of salesmanship contains many weapons of varying effectiveness. All that are useful will have their day. But the chief instrument for thundering a barrage of persuasion upon the barrier prejudices of the consumer is likely to be advertising.

The opening advertising guns of the battle for consumer's loyalty have, needless to say, already been fired. Some of the artillery has even reached a point of extreme development in technique and volume of ammunitions expended. Individual advertising both among manufacturers and retailers is, in fact, in a few cases even overdeveloped. Nevertheless, the possibilities of advertising are certainly not yet exhausted—especially for the retailer, who has thus far in his efforts lagged far behind the effectiveness of national advertising copy. In some cases, it is true, the increasing cost of additional sales volume may prompt lesser amounts of advertising, but on the other hand, improved sales methods are

likely to prompt increased advertising. The advent of new products or newly advertised products is also likely to increase or at least maintain the total advertising expenditure of individual concerns in the future. Companies that have been satisfied to produce unbranded merchandise have found it increasingly necessary to give this child of theirs a name and send belated cards of announcement to the consumer friends they would like to make or keep. And finally, anything that may develop to challenge the security of a consumer market will prompt a desire to insure that market irrespective of the effect of the expenditure upon temporary profits. This very year with its possibilities of high production schedules and decreased unit profits—if not of decreased total profits—promises to give expression to this battle for consumer loyalty fought with the weapons of increased advertising appropriations.

In the effort of individual brands to win consumer's loyalty one danger has already become manifest. When one product tries to claim for itself superlative merit the argument sometimes follows lines that may be destructive to the good-will of the entire class of products to which it belongs. If a hat is sold upon the basis that it reduces the danger of baldness more than any other, there may be unwittingly created in the public mind the consciousness that hats create baldness. Then if a bare

head fad should follow, the result would not fail to affect even that hat which claimed to have reduced the danger to a minimum. Cigarette advertising that insinuates the irritating quality of all cigarettes must guard against the reaction, unless the demand for cigarettes is at the same time indelibly stamped upon the public mind.

It is not, however, in individual advertising that the great development of publicity appeal to the consumer is likely to take place. It is in the growth of group appeal that the artillery of the battle for consumer's loyalty will show the most marked, possibly even radical, changes in industrial competition. This use of advertising does not write its message on a blank page. Reference has already been made to the groups of florists who have combined to promote flower consciousness—and the slogan "Say it with Flowers" is so well known that its industrial significance is lost in the general acceptance of the specific appeal. Jewelers, candy manufacturers, Chambers of Commerce, hotels, sauerkraut, cement, copper producers represent a partial list of the other interests that have combined themselves into advertising groups. Jewelers plead with us to buy "gifts that last." Candy manufacturers extol the sweet sentiment of the box of chocolates and bonbons. The Copper Research Association informs us of the enduring qualities of copper and brass. The

Portland Cement Association has preached the value of cement for building. The movement is bound to become general. The American consumer can expect to be serenaded in the near future with the cymbals of outspoken wooers and with the persuasive songs of subtle lovers of his patronage. The tale of the automobile, the pleasure of the radio, the convenience of the electric refrigerator, the health of the ice refrigerator, the comfort of electrical appliances, the success quality of well-styled, well-dressed men or women—these are some of the themes of the improvisations that are to follow in the future.

The movement that will embrace manufacturers as a class and retailers as a class in their competition against one another for consumer's loyalty is somewhat more distant. The difficulty of obtaining joint action increases tremendously with the number of parties involved. To persuade five hundred manufacturers or an equal number of retailers that they should subscribe to a fund to be used for common advertising, would be difficult indeed. It is, however, not an impossible achievement, and when the need is sufficiently pressing the contributions will be forthcoming.

But group appeal by the retailer and the manufacturer will not have to wait for the collection plate to be passed around. As consolidations increase in size and power,

group appeal will begin to take its place naturally in the advertising field. Chain stores and consolidated department stores will begin to trill persuasive songs for consumer loyalty to their brands. Manufacturers who have combined their forces into consolidated units that produce many products appealing to many millions will begin to inaugurate a campaign to insure consumer loyalty to the consolidated company's nationally branded products. The struggle between the manufacturer and the retailer for the consumer's loyalty has, of course, been under way for some time, but the manufacturer has been carrying on as an individual, and the retailer has limited his efforts to written or spoken policies and to "House Rules." It is inevitable, however, that retailers should combine in order to speak authoritatively, and that manufacturers should combine to speak effectively. Group appeal will then be the order of the day. And the chief instrument of group appeal will be some form of national advertising.

If, as seems reasonable, there develops a marked increase in the advertising bill of American industry, what results can be anticipated? Obviously, if advertising is effective, those agencies that are first to make use of group in addition to individual appeal will benefit materially from the direction of a large percentage of the consumer's purchasing power to their products.

If the development of group appeal becomes general then it is likely that the total consumption desires of the country will be increased. It is not probable that the appeals of one group will entirely offset those of another. As advertising has increased in the country, there has been no sign that every successful campaign garnered its entire increased sales market at the expense of some product that had been in the field before. There is likely to be, as there probably was, some encroachment, and if the product causes some other article to become obsolete, the encroachment may be serious and even fatal. But, generally, increased advertising adds both to the consumption and the production capacity of the country.

It is natural that this should be so. Advertising is an educational force. If effective, desires increase, standards of living are raised, purchases are made; purchases create production, production creates purchasing power, and the circle can be made complete if desire is at this point strong enough to convert that power into actual purchases.

Of course there exists theoretically that danger point when consumption has reached its limit. Such a breaking point is probably non-existent. Human desires seem to have no limits. Food products may some day reach a point where people's appetites are satiated or oversatiated—a day, however, far distant or at least hardly immi-

nent. But even when that day comes, there will still be other wants and desires that are just as real—the satisfaction of which will still provide new sales opportunities. Give the world and his wife the funds with which to satisfy every need, desire, and whim, educate the world and his wife to want, and the productive capacity of the country will actually groan under the burden of the enormous demand. There may be limits to the consumption of particular products. There is no theoretical limit to general consumption possibilities.

That is what the economist means when he says that there can be no such thing as general overproduction. The world will consume all that can be produced, if only production will create the purchasing power for that consumption. There is, of course, not much solace in that principle for the industrialist who finds his capacity idle, his sales markets flooded by his competitor's goods, prices weak, and demand weaker. For him, to be sure, there is overproduction.

Nevertheless, the economist is probably right. Overproduction in a particular industry exists only because of the maladjustment between the parts of the entire economic system. To eliminate entirely such maladjustment may be impossible. But at least it is possible for most industries whose products have not passed into complete obsolescence to correct part of this maladjustment.

The problem is easy to state, the answer is always difficult to find—in some cases impossible. The formula is simple—economical production, careful merchandising, consolidation, and the increased development of consumer demand.

To those, however, who feel in spite of this that there is a limit to the effective use of the industrial capacity of the country, history should relate its own reassuring story. If to the leaders of the American industry of fifty years ago some wildly romantic business prophet had suggested the possibility of the actual production figures of this year of 1928, his story would have been summarily dismissed and his sanity seriously questioned. American industry has rolled on with whirlwind speed. There is no fundamental reason to believe that such speed can be slackened either by the obstacles that may confront business or by the diminution of the energy inherent in business. Each industrial institution must of necessity forge its own way to success. But industry as a whole can plan and execute for its advancement, secure in the belief that there are no limits to the total productive capacity of the country and the resulting purchasing power, because there are no limits to the needs and desires of American consumers. If advertising develops new needs and desires, or amplifies existing needs and

desires, then advertising is a constructive force in the advancement of this industrialized nation of ours. And if the battle for consumer's loyalty is waged effectively and ethically—then it is possible to look forward to its results, not with fear and misgivings but with faith and assurance.

XIII

Money and the Shadows of Europe

THE discussion thus far has been almost solely industrial and commercial in character. The financial aspect of the problem of American business, however, cannot be dismissed in a few casual paragraphs without leaving the picture unfinished. It is important to visualize in parallel development the financial situation which has gone hand in hand with the conditions of production and distribution during the last decade.

Moreover, it is advisable to take into account those factors which may disturb one's calculations; and if one cannot eliminate those factors from the sum of things, one at least can make a note of them. There is personal satisfaction in the act, and there may be actual value in it, insofar as it may prepare others against what would otherwise completely surprise them.

Everything preceding this chapter has marched in order. New industrial and retail developments, or, in fact, a changed business system full of potentialities has been described—and with it all no break in America's prosperity has been foreseen. The conclusion seems

sound and inevitable—from the point of view of industry.

A cloud, however, is collecting in the East, and it is well to consider whether it may in some future day overcast the sunshine. The cloud is financial—not industrial. It may be ten years or more before it reaches ominous dimensions, and its consequences cannot be carefully defined at present; but its existence must at least be noted in order to complete the picture of the future of American business. The picture may become thereby less roseate, but it will be all the more accurate; and to refuse to flatter the American business man is to render a distinct service by keeping him alert.

Perhaps the most advertised and least understood fact of America's international status is her balance of trade. For years the United States has revelled in the fact that she was favored by a favorable balance of trade. Exports exceeded imports, we sold more than we purchased, we had the benefit of a European market for our surplus production; demand exceeded supply, and a seller's market and rising prices were the inevitable result. These factors were the rabbits of the international trade magician. They signified prosperity.

In a way this was true; in another way, it was a false paradise. Nations, like individual corporations, must at least balance income against outlay. The continued existence of a surplus income for one nation means eventual

bankruptcy for another. The only means of settling international debts before the war was the shipment of goods and gold. A gold producing country could continue indefinitely to maintain a surplus of imports over exports by the amount of gold produced annually. Other countries could maintain such a program only so long as the gold reserve on hand was sufficient to pay for the excess imports.

But Europe before the war neither produced gold nor did her gold reserves suffer any continuous diminution, in spite of the fact that generally speaking her countries showed an excess of imports over exports. On the other hand, America was a gold producing country and maintained an excess of exports in spite of which her gold reserves experienced no continuous increase in size.

The reason for Europe's ability to continue solvent—even prosperous—in spite of a continuous excess of imports or an unfavorable balance of trade was identical with the reason for America's continuously favorable balance of trade without the consequence of a steady flow of the world's gold to American treasuries. The so-called invisible items of trade introduced a counteracting influence.

For decades American railroads and American industry had been in the process of development. Capital in large sums was requisite for the building of plant facili-

ties and the weaving of the steel transportation network across the ample area of the new country. Europe supplied that capital. Like most capital that is loaned, European investments required that interest be paid upon the principal. The annual payments due to Europe by American governmental agencies and industrial institutions totalled several hundred million dollars. America could pay those debts either with gold or goods; she paid with both.

Before the war, the annual increase of American adult population through immigration represented the addition of several large-sized cities. Many of the immigrants sent remittances to families who remained in Europe. These gifts created a credit on American industry payable to Europe in gold or goods. Europe chose to cash her remittance checks in both specie and American goods.

Today the migration of American tourists resembles an annual expeditionary force. Before the war, the American tourist migration, though not quite so large as it is today, was by no means insignificant. It has always been the custom of tourists abroad to spend freely. Those expenditures left American checks in European hands to be cashed either in gold or in goods. America paid her tourists' bills in exports of both.

At the outbreak of the Great War America had practically no merchant marine. The days of the leadership

of the American clipper had come to a natural end with the development of cheaply operated steamships of Europe, American labor having made successful competition practically impossible. America's bill for ocean transportation of freight and passengers was, therefore, enormous; her annual insurance fees for cargoes constituted alone a king's ransom. These debts, too, Europe collected in American goods and gold.

The pre-war favorable balance of trade was therefore a necessary element for the solvency of America and not, as many have supposed, a continuous spring of surplus wealth for America. America's annual debt to Europe roughly totalled one-half billion dollars; and the credit of the nation required the payment of that debt. American production, for the most part, merely paid the bill. The favorable balance of trade was, in other words, largely the payment of a debtor nation to her creditors.

One of the first statements the war evoked was the prognostication that it would be of brief duration because the contesting countries did not have sufficient funds to maintain their tremendous daily expenditure for more than a few months. Months dragged into years; colossal expenditures were soon surpassed by the super-giant extravagances of destruction; and still lack of funds did not stop the war. Internal funds were called upon; external wealth was drawn in; and in that latter process,

America's position in foreign trade underwent a radical change.

Gradually, at first, and then with increasing speed the citizens of European countries sold their American investments in order to obtain funds for investment in their own national loans. Patriotism in most cases overwhelmed all the other factors involved in the investment of funds; the fever heat of our own Liberty Loan campaigns was at least equalled and possibly surpassed by Europe's call on her own people for funds. Hundreds of millions of dollars of American securities were sold by Europe to American investors. And by the time the war was over, the huge pre-war annual interest debt previously owed by American industry to Europe was entirely eliminated.

The change, however, did not stop at this zero mark. At the end of the war, Europe no longer had a credit of capital in American hands; instead, she had accumulated a tremendous debit balance in favor of America. The debts owed to the United States by England, France, and Italy for munitions and supplies totalled billions. Nor did the process stop at the end of the war. Rehabilitation of capital assets and working capital for both European government agencies and industrial units sought and still continues to seek American loans.

Today the annual interest charge owed to America by

Europe—even without the final settlement of governmental war loans—is actually greater than the pre-war payments in interest made by America to Europe. Since Europe is not a gold producing area, her gold reserves cannot afford such continuous diminution. Eventually, therefore, she must discharge her interest obligations in her only acceptable medium—a surplus of merchandise exports over imports.

Besides, the change from pre-war conditions is further defined by our war-time building and seizure of a merchant marine that carries at least an important percentage of the trans-oceanic movement of freight and passengers of the nation, reducing thus the bill always owed to Europe and paid in surplus exports before the war.

With the present rigorous immigration restrictions limiting the influx of Europeans seeking homes in the United States, there has developed a decrease in the number and volume of cash remittances sent to the European families of America's adopted sons and daughters. The credits formerly created for use by Europe in the purchase of American goods are in every respect not as large as formerly—and the foundation of America's favorable balance of trade finds itself, therefore, as a result of the Immigration Laws, further weakened by the withdrawal of an important source of Europe's ability to buy.

To obviate this condition in part there is American

tourist travel, which has increased both in numbers and in expenditures. Even with the depreciated currency of many European countries taken into account, it is true that more American dollars are being spent in Europe now than were formerly.

The change that has come about in the American international trade status, however, is altogether too tremendous to be affected in the main by this contrary stream. The increased expenditures of tourists represent only an insignificant increase in Europe's annual credit in America; whereas the decrease in Europe's other pre-war credits amounts to many hundred millions of dollars.

Europe of today owes an annual debt of nearly $700,000,000 to the United States. Her only method of discharging that obligation eventually is through excess exports of merchandise. America's favorable balance of trade before the war was the result of her position as a debtor nation. Since then the contrary has become true. Europe today and for the last ten years has been a group of nations in debt to America. And such a condition should have reflected itself in a European surplus of exports and in an American surplus of imports—or, in other words, in an unfavorable balance of trade for this country.

Nevertheless, and at first thought paradoxically, the

reverse has been true. America has consistently continued to have a surplus of exports; and Europe has maintained her time-honored condition of an excess of imports. From the simple point of view of necessity, this condition is, of course, easy to understand. America's mechanism for manufacture was unharmed and even increased by the war. Europe's industrial machinery was destroyed in part; and the rest had suffered from disuse and obsolescence. Rehabilitation required materials—and those materials were most available in America.

But necessity alone involves purchasing power only in the theoretical program of a particular socialistic school. In this present-day economic system of ours, funds or credit are essential for the procurement of supplies. And it was the credit advances made to Europe from the public and private funds of America that made it possible for European countries to call upon American goods.

The annual credits granted to Europe have more than offset her interest charges and her bills for goods. A few logical steps will make this evident. Large amounts of capital have been invested by Europe in permanent improvements. Such improvements were built for the most part with European materials and by European labor. The funds used for this purpose could not, consequently, have been available for the purchase of the American

excess of exports. Since this excess of exports has, nevertheless, been paid for, American capital advanced to Europe must have exceeded the total annual interest charges plus the total excess of exports shipped by America to Europe.

So long as American credits to Europe exceed the annual payments made by Europe for its interest on principal, American exports can exceed American imports from Europe by the amount of that excess. If an excess of American exports is an important and beneficial thing for the United States, then it can be said truly that the successful encouragement of American investment in foreign enterprises is a constructive effort.

But some day, even with the continuation of large investments abroad, and even with a refunding rather than a payment of principal amounts, the annual payment of interest on American foreign loans will surpass the yearly investment of new capital. That day will mark the relatively permanent conversion of the United States into a nation whose imports exceed her exports; and from that day the United States will have an annual unfavorable balance of trade.

The date of its coming depends upon so many factors that it would be useless to hazard a guess. But that such a day will arrive is unquestionable as a mathematical

conclusion. And it seems equally inevitable that Europe's only possible settlement of her international accounts will be in goods.

There are those who speak of an imminent era of super-competition. The prophetic picture of a Europe converted into a group of mass-production nations is drawn. The Europe of this prophecy is to be almost entirely a series of gigantic Ford plants—grinding out millions of annual production at the lowest costs and sweeping the markets of the remaining world before it like an advancing army of locusts.

Europe will become a severe competitive factor in the world's markets. The necessity of either maintaining an excess of exports or perishing leaves only that choice to her nations. What particular mechanism will in consequence be adopted can hardly be foretold; although the use of national, Fordized industrial organization can be quite confidently dismissed. For one thing, Europe is not sufficiently well provided with natural resources to be as wasteful of materials as American industrial machinery. Her labor market, too, does not require the same economy in its use as ours. Besides, her people have given only slight evidence of their inclination or ability to work upon American methods. And, most important, the capital necessary for the building of a Fordized Europe is not available.

Europe requires immense amounts of capital for the rehabilitation of her industrial machinery and for working assets. That capital has been granted, and is still being granted to Europe in generous amounts. Until now, those funds have built no Ford-like factories. The amount of money which would be necessary for investment in permanent assets—buildings and machines—in order to convert all Europe into an area of mass production would stump even the most expert statistician who glibly builds roads to Chicago out of the annual production of buttons or converts New York's daily consumption of oysters into edifices that dwarf the Woolworth building. In contrast, the war debts would look like a woman's bank balance at the end of the month.

Even, however, if it were possible to acquire this figure of billions and billions for the righteous conversion of Europe into a superman of competition, the years during which the merchant marines of the world were transporting the requisite gold would still leave the United States with a huge export balance. And the period of super-competition would thus be a matter of concern only for our great-grandchildren.

European competition is not that far removed; and European competition will not have to wait for the building of this colossal mechanism of mass production. Even if labor advantages are not sufficient to make her

goods cheap in the world markets, the value of her currency will remain sufficiently low to make her goods attractive purchases for foreign buyers. If tariff walls are erected against her, reciprocal tariff walls will be erected by her. Foreign importations will be diminished; Europe will buy her foreign goods from nations to which she does not owe money; she will sell her goods to nations to which she is in debt.

Tariff walls or no tariff walls, Europe will have a huge annual debt to discharge to America. Her only acceptable medium will be goods. And her surplus of exports to America must balance her payments of interest. Tariff walls may keep some foreign goods out of the United States; but for each dollar kept out by those walls, one dollar of American exports must be kept out of Europe.

The tariff problem for the next generation will grow in importance until it demands the attention of all business men, consumers, and statesmen. It is the fruit of the war. But, likely as not, it is a bitter fruit, and its taste may be sharp and unpalatable.

But the tariff question will not be the only problem created by the payment of Europe's obligations. Those manufactures of America which compete with well-established European sources of supply will feel the stress of imports from Europe. Those manufactures which depend for a substantial part of their outlet upon foreign markets

will face increasingly aggressive European pressure for those markets. Only those manufactures and food products complete or substantial monopolies of which are in the possession of America will be neither harmed nor be compelled to assume any portion of the burden placed upon American industry. They, on the contrary, are likely to receive a real impetus from increased European demand; and the pressure of European competition in American and world markets will be focused upon those manufactures which European industrial units are in a position to produce efficiently.

The problem will require constructive economic and industrial statesmanship. And its solution will lie in encouraging consumption of European products in this country so as to create credits with which Europe can purchase American goods. The exclusion of European goods does not remove the necessity of an export surplus for Europe, but it does decrease, dollar for dollar, the purchase of American goods by Europe.

Europe is in the position of a town whose treasury is empty and which manufactures shoes only. Such a town needs many items other than shoes; and these it can buy from a neighboring town only if that or if some other community becomes a market for its shoes. Any embargo against the purchase of our town's product automatically creates an inability on the part of our town to

buy foreign products, unless, of course, some hidden source of wealth is revealed. And Europe gives but little indication of having the required amounts of secreted wealth necessary to maintain her position undiminished as a potent purchasing agent in American markets.

In the period during which the United States was the chief commissary of the world's needs, the sale of her goods attracted a large part of the world's gold reserves to her vaults. For four years, America was a vast supplier of war materials, food-stuffs, and manufactures to the warring nations. During the war, all world markets formerly supplied by European production had to turn to American goods. And even after the war, the world required American goods in larger amounts than before, since European manufacturing facilities were either destroyed or required substantial rehabilitation. Until these sources of supply would again become effective factors in the world markets, American suppliers maintained a position of relative monopoly.

This concentration of world-demand upon the American productive machine developed unprecedented production schedules and unheard-of profits. Payments were made to a large degree in gold. And in many cases gold was shipped to prevent the reduced value of foreign currency from disappearing completely. Many sales were made by American manufacturers on the basis of dol-

lars. The demand for dollars was continuously at fever heat. Foreign monetary systems departed quickly from a gold basis of parity. But even paper currency required the maintenance of some value. And the effort to maintain that value in Europe sent most of her gold to our shores.

Today about one-half of the entire gold supply of the world resides within the confines of the United States.

For a considerable length of time, it has been an accepted theory among reputable economists that the gold supply is a factor in price. Like any other commodity, gold is subject to the time-honored law of supply and demand. Given an equal demand for a product, an increasing supply of that product will tend to reduce its value or price. The value of gold is the amount of goods an ounce ($20.67) of gold will purchase. As the amount of goods which a dollar or twenty dollars will procure decreases, the value of gold decreases. In other words, as commodity prices increase, the value of gold decreases.

Actually, the theory of the relationship between gold supply and price is very much more complicated. The span of credit, the velocity of money in circulation, the speed of our credit facilities (banknotes, loans, etc.), the demand side of the equations are factors in the relationship between money and commodity prices.

Still it can be said that there is a considerable relation-

ship between gold reserves and prices. The existence of our inordinately large gold supply is likely to maintain our prices above the world levels. The necessity of our being a good selling market and of Europe being a good buying market, will cause our level of prices to remain relatively high. Gradually as these vast holdings of gold leave the United States in the form of foreign investments, prices will fall. Even though this recession is not constant, and is bound to lag behind the deflation process of Europe, it is likely to exist through the next decade.

In the meantime, money rates in the United States will most likely remain fairly low, with a tendency to decrease. There will be times when rates will rise as the money market reacts to some seasonal or temporary situation. But on the whole cheap money seems to be a reasonable expectation.

The possible effect of low money rates upon business expansion offers an interesting mental speculation. In the past, low money rates have been identified as a factor of stimulus for business expansion. A period of low money rates was apt to follow the ebb of industries' demand and need for funds. Whatever turn took place from the low point of business activity must have been then upward, and inasmuch as low money rates were apt to be coincident with the upward trend of business,

cheapness of money could, it seemed, be assigned as a factor in industrial improvement.

In reality, however, it is doubtful whether cheap money is an important direct factor in business expansion. High—or extremely high—rates are undoubtedly a deterrent both in the cost of loans and because the high rate is an index of the scarcity of money. With high rates prevailing, it can be presumed that some desired loans are not satisfied. But even considerably high rates have not been coincident with inactive business in the merry-go-round cycles of prosperity and depression that existed before the inauguration of our Federal Reserve system. During those days of Alpine peaks and valleys of business, high rates were often the companions of wildly active business and industrial expansion.

The very demand created by the needs of super-active business placed a premium upon available funds. And inversely—when business, having burned its fingers upon the red-hot stove of our inflexible banking system, withdrew not only from the too-great heat of too much capital, but from the warmth of moderate capital as well, funds went begging.

Whether the hen or the egg came first is notoriously a moot question. Whether business demands make money rates, or money rates determine business activity

is in essence a problem that involves both economics and psychology. The answer, like so many, is probably Yes and No. But some evidence of whether business or money is the guiding influence may be available in that real laboratory of American economics—the attitude of the average business man.

When for one reason or another business is bad, it is really doubtful whether the business man studies the rates of sixty or ninety day paper in order to determine whether rates are low enough to encourage an expansion program he has in mind. He may, of course, take advantage of low rates to replace a high-yield bond or some preferred stock on his business with a lower-yield security. But instead of seeking cheap capital with which to expand, convinced most likely that the country has gone to the dogs, he will probably consider that his only chance for survival lies in drawing in his expenditures, economizing and converting his inventory into cash; thereby further increasing the country's supply of capital.

On the other hand, when business is booming and the influx requires the building of a new plant, it requires very high money rates indeed to discourage the business man from attempting to gobble up the additional available volume and resulting profits. He is willing, in consequence, to compete for capital, and in that very process he extends the credit structure and raises money rates!

Then, all of a sudden, Money asserts its rights! Banks have reached a danger point; loans are not renewed. Money reaches a panic level. Loans are still not forthcoming, inventories are thrown upon the market, insolvencies follow, and the world of rosy dawn turns to darkest midnight.

The financial system may assert itself with sufficient impact to create a crisis; but the usual course of money, and even the causes of crises, are results of our industrial system.

The factors which contribute to good and bad business are manifold; but the personal element—though intangible in nature and unmeasurable in force—is of tremendous importance. The psychology of the American business man is a vital force in the affairs of the nation. Temperament is, historically, the natural monopoly of artists. But, actually, it is also a zealously guarded if merely whispered possession of the most practical of business men. Confidence begets confidence—lucky is the administration that has a full dinner pail, woe betide the one that explains its platform to jobless workers or profitless employers. Theoretical economics, practical economics, logical analysis are wasted words. Wages and balance sheets are the real electors of our parties.

Visualizing psychology as playing such an influential role, it would seem only fair to assume that when busi-

ness is good, the chance for the continuation of good business would be greatest—for certainly optimism is then at its highest point. And when business is bad, the period of depression should be everlasting, for at such a time food is mere ashes in the mouths of our kings of industry.

If psychology is really so all-important, .there should be an everlasting period of boom or depression; but disconcertingly enough, economic history reveals cycles of prosperity and depression following each other from 1873 to 1914 with the regularity of time and tide.

Obviously, there must be some factors other than mental attitude involved; and even the factor of psychology can, it is well known, be a result as well as a cause. It is easy to see how the simple fact of a strained credit situation can break a boom period and transform blithe optimism into bleak pessimism. The labor of lifting the bowed head to a rising sun is, however, more difficult, and it is harder to understand.

With the industrial craft thrown upon the sands and left derelict by the retreating tide of business prosperity, the situation looks very ominous. What finally floats that ship again has been discussed and disputed by so many learned economists that even a superabundance of assuredness prevents the advancement of any one theory without qualifications. But it is perhaps not unlikely that

the same agency which stranded the ship eventually makes amends for its own destructive work.

Money released by industrial inactivity seeks employment. The most easily accessible market for such employment is the stock market. Bonds attract available funds. The increased demand raises prices and reduces the yield of the fixed-coupon senior-security. Preferred stocks next attract buyers. Then good common stocks that weathered the storm relatively well begin to be sought out by the unattached funds of the country. The stock market takes a turn upwards. And the stock market having for decades been recognized as a presager of coming business events, trumpets its call of succor to the flagging spirits of American industry. New hope is born, and again we set sail upon an untroubled sea of success, until indeed, another reef interrupts the voyage.

Fanciful, of course, is such a simple explanation, but like most fairy tales, it contains more than one minim of truth.

Another factor in the recovery of industry lies in the very liquidation of inventories and reduction of production schedules that are the inevitable hand-maidens of a panic or a crisis. When industry stops or slows up, the output obviously follows suit. Consumption however is always with us. Once consumption has used up a substantial portion of the maladjusted supply created by

over-zealous industry, orders for replenishment begin to arrive and once more the mills of the gods grind.

Two great changes in our industrial and financial system have taken place in the last fifteen years. On November 16, 1914, the Federal Reserve System was established. And during the last five years, controlled inventories, sometimes called or sworn at as hand-to-mouth buying, began a forceful career. The guiding hand which can be exerted upon the funds of the country by the Federal Reserve System has served—and will, no doubt, serve—in the elimination of periodic eruptions of business conditions. That there will be checks to business activity is to be expected and to be hoped for—because only by the frequent application of brakes will collisions with the stone wall of reality be avoided by over-optimistic business men.

With the assistance of the Federal Reserve System, we may expect freedom from the unwarranted and annoying financial panics of the past, and we may anticipate the replacement of a seven years' cycle by more frequent restrictive measures and, it is to be hoped, by infrequent difficulties which changing world affairs bring to our industrial machine. The Federal Reserve System, however, can only protect industry against unwarranted financial expansion; obviously it cannot control either

American consuming markets or foreign consumption and production.

The part which inventory control plays in industrial stability deserves, therefore, all the more careful study by business men, bankers, and economists. The intensive application of true inventory control is young; but its results both in the protection of profits and in the increased freedom of working capital are already mature. That it is an important phase in our revolutionized economic machinery is certain. Inventory control is the child of style; and it is the enemy of continuous mass production. It is thus the result of modern industrial methods, and it will in turn influence future industrial methods.

It was the lack of inventories in the latter part of the year 1918 which was responsible for the startling recovery from the business depression announced by the serious break in the stock market at that time. For four years industry had been working overtime to satisfy war needs. These vanished at the end of the war, and the stock market proclaimed the demise of the boom. But the stock market and business men had forgotten that although there was no further need for war materials, there would be a veritable flood from the dammed demand for peace-time products. The shelves were visibly bare of peace-time merchandise. The manufacture of routine

supplies had been restricted by government regulation. With the end of the war, restrictions, both legal and patriotic, against production and consumption were lifted; and the demand for which a supply had to be created was, therefore, tremendous. A period of great activity resulted.

The depression of 1920-1921 was serious because large inventories of high-priced supplies had been accumulated. When the boom broke—in the stock market in October 1919, and in business early in 1920—the liquidation of huge inventories caused tremendous losses in those businesses which had built up large supplies of materials. The effect of inventories upon the intensity, if not the origin, of our business depressions can be read in the entire experience of American economic cycles.

Since 1921, the United States has lived in one of the longest periods of uninterrupted business prosperity that it has known. It is unlike most periods of activity in that there seems to be no undue accumulation of large inventories. Most of this period has witnessed slowly falling prices—whereas business prosperity is ordinarily accompanied by rising prices. And for an equal length of time, money rates have been low with a trend downwards rather than upwards.

Low money rates and active business represent a combination that has few previous examples. The large

amount of capital in America is one reason. The decrease in working capital used by industry is also responsible for this unusual situation. America has enormous funds available. And industry with the help of efficient freight and express service rendered by the railroads is carrying smaller inventories and requiring fewer dollars in working capital for an equal volume of sales than it did formerly.

Inasmuch as business needs probably will not cause any real scarcity of capital for some time, the surplus of funds is likely to show its effect in the low yields which money will return to its owners. Security prices both for bonds and stocks have increased without a corresponding increase in either coupon rates, yields, dividends, or earnings. A dollar of earnings or dividends is bringing a higher price. In other words, investors are satisfied with a lower return on their capital than formerly.

It is probable that lower yields on good securities—bonds, preferred stocks, and common stocks—will be the trend for one or more decades. Securities of industrial institutions which have proven themselves will increase in value not alone upon the prospects of increased earnings and dividends, but also because the employment of funds in successful enterprises will put a premium on those stocks the safety of which is relatively great. In the past, reasonably good business conditions offered investors five

or six per cent on bonds, the same return in dividends on common stocks, and ten to fifteen per cent on security prices in annual earnings per share. The future is likely to offer only three to four per cent on prime investment securities, five to six per cent on safe preferred stocks, and six to twelve per cent in earnings on common stock prices —the variation depending upon the speculative character of the business. The days of very low returns are still some way off, and only those securities with which the public is intimately and favorably acquainted will benefit in full measure by lower yields. But the tendency toward lower yields or higher security prices for equal dividend earning rates is almost certain It is another product of this revolutionized economic world in which we live and will continue to live for some time.

Surely, it must be clear that money has played an important role in the building of American Prosperity. And it should be equally clear that this financial element is likely to play a stellar role both in the consequences of that prosperity and in the possible influences of European conditions upon that prosperity.

It is relatively easy to summarize the part that money has had in the causes of this present period of active business. The possession of huge gold reserves has enabled America to advance capital in tremendous sums to Europe; and the shipment of this gold has given Europe

funds with which to make purchases of our goods. The resulting maintenance of our export balance of trade has provided sales markets for American industry.

Then, too, our huge gold reserves have made credit in America reasonably cheap and funds for American industrial expansion readily available. Business has suffered no deterrent to its expansion or operating programs through the scarcity of capital. And finally, the supply of free capital in its search for employment has been a factor in maintaining the stock market at high levels. A bull market has become relatively venerable with age, and a bull market is undoubtedly a psychological factor that promotes the confidence and enthusiasm of business men. If optimism is an element in prosperity, then surely cheap money and the stock market have contributed their share as causes of that prosperity.

Just as in the case of the part that money played in the causes of prosperity, there is also relatively little difficulty in indicating in a general way its role in some of the consequences of that prosperity. Improved railroad transportation and the development of hand-to-mouth buying are likely to reduce industry's requirements for working capital and thereby assist in the maintenance of the existing condition of easy money and credit. Profits and dividends which are products of prosperous industry will add their share to the amount of capital which indus-

try will not require and which will therefore be available for investment. If such investment is made in America, then the expansion of industry can go on unimpeded by a scarcity of capital. And the funds which seek investment in Europe will delay the day when our export balance begins to be replaced by an excess of imports.

Eventually, however, the changed international financial status of America and Europe will create a surplus of imports in America's balance of trade. And it was to the consequences of this disturbing financial factor that the opening statement of this chapter referred. The results of a loss of our favorable balance of trade constitute the greatest single threat to American business which it is possible to foretell for the near future. If the eventual existence of a surplus of imports is accepted as a fact, then surely there can be no doubt that foreign competition and serious tariff questions will be consequences of that import balance. Nor is anyone likely to deny the probability that such an excess of imports will impose onerous and possibly dangerous burdens upon those American industries which will most feel the competition with European industries. All this must follow as a natural sequence to an American import surplus.

It is now, however, that the real difficulties arise. When will such a condition become a fact? What industries

will it affect? What will be the effects upon American industry in general?

To determine the time element, it would be necessary to know among other facts at least the following:

How long will America advance funds to Europe?
What amounts will be so invested annually?
What disposition will be made of the war debts?
How much will tourists spend?
What will happen to our merchant marine?

To guess what industries are most likely to be affected, it would be necessary to know:

What products for which there will be an American demand will Europe be fitted to make?
What will be the comparative ability of those American plants capable of manufacturing the same or similar products?
What will be the tariff situation?
Will the tariff allow European goods to come in fairly freely, or will it serve primarily to keep American goods out of Europe?
How effective will American manufacturers be in winning consumer loyalty?

Even an encyclopedia would not hold the mass of facts —if available—required for finding the answers to these questions. And since there are no facts but only conjectures, the services of some all-knowing soothsayer are here quite indispensable. Unlike the developments immi-

nent in industry, the changes in America's financial status have left no trail in the past by which the future may be guessed.

Finally, to anticipate the effect upon industry in general one would need a new set of prophets to consider each of these separate conjectures and forecast its probable effects upon our complicated economic structure. This is hardly the task for a mere practical economist.

It is possible, nevertheless, to hazard one or two general guesses. If European products add their weight to the competitive struggle for American consumer markets, then it is likely that all three of the probable developments for American business already discussed will be stimulated. The struggle for sales will make careful merchandising essential. If those marginal producers of America whose costs are highest are destroyed, then merger will offer its economic strength as a haven of protection to American institutions seeking safety and survival. And finally, if European products seek to win favor with American consumers, American industry will be forced to increase its effort to win and hold the consumer's loyalty for itself.

If tariff succeeds to a large measure in keeping European goods out of America, then the primary characteristic of an American surplus of imports will be evidenced by the decrease if not the elimination of Europe as a

market for American goods. If this happens, then the American consumer market will feel the brunt of domestic industry's effort to win at home what it has lost abroad. Under these circumstances, it is reasonable to expect increased high-pressure selling and the greater use of mergers as instruments. Careful analysis of consumer wants and desires and a battle for consumer's loyalty will mark the struggle for home markets.

An import surplus will aggravate the competitive situation in American business; and competitive American business will, it is expected, intensify the development of merchandising, merger, and the battle for consumer loyalty.

These three developments have been suggested as consequences of the business forces created by modern prosperity. But what about the consequences to prosperity itself when America finds itself with a surplus of imports over exports? Now, indeed, we find ourselves upon a limitless and uncharted sea of conjecture, over which words can stretch only a meaningless bridge.

Will the readjustment resulting from the importations of European goods or from the exclusion of American goods from Europe destroy the momentum of American prosperity and initiate a vicious circle? The answer does not come for the asking, although it is probably No.

It is, of course, possible to visualize as the result an

endless circle of diminished production and sales. Industries feeling the pressure of foreign competition in America or diminished markets in Europe, will reduce their production schedules; the purchasing power of their workers will decrease; other industries will feel the effect; and so again an additional decrease in production will result, until the joyous days of prosperity are over and are superseded by depression and despondency.

And one can continue to hang dark crepe upon the prospects of American business. Once depression is well under way, the credit inflation that has come from the use of instalment selling will seek its day of reckoning. Purchases partially paid for will be converted into replevined merchandise that increases inventories and requires forced liquidation. Credit losses will convert profits into deficits, and dividends into assessments. Business will be forced to retrench, and being built upon foundations of high selling costs will risk the destruction of the whole economic building as its foundation stones are weakened through enforced economy. Because it has reached its present high levels of accomplishment, the distance that business can drop seems to be all the greater.

What a gloomy picture this is! One is almost tempted to be philosophical and say "Well, it was fine while it lasted, and the distance of the precipitous drop measures the lofty scale to which industry had climbed."

But the possibility that the business man will require such solace is slight. Foreign trade represents only a small percentage of American industrial production. Moreover, so long as the consumption powers of America can be expanded, American industry is safe. There will no doubt be specific industrial situations which will feel the brunt of European competition. But, as a whole, American industry will not be seriously affected. Even today some particular industries are by no means prosperous; and yet the country at large is producing its record output! American consumers have developed new standards of consumption, and it is inconceivable that they will be satisfied to accept lower standards. And so long as the bulk of American consumers will continue to consume, that consumption will keep the wheels of American industry humming.

America cannot live in the false belief that she is isolated. European conditions are certain to affect both American industry and consumer. The exact effect cannot be foretold. That it will be significant seems certain; that it will be serious seems possible; but that it will be disastrous seems incredible.

XIV

And So into the Distance!

THESE next ten years are to be a stirring decade in the annals of American business. New problems to be solved, new records to be reached, new developments to be made will test the ability of new leaders. The alchemy of American industry has been truly magical. Those who would learn its secrets have traveled thousands of miles from all the corners of the earth. Founded upon the system of machine production, American business has created economical manufacturing and high labor productivity—and these have resulted in high wages and low unit costs.

While the wheels of American industry keep turning, the production output—which is the real miracle—is enormous. But the force that is required to keep those wheels turning is no petty trickle of purchases, but the unparalleled torrent of modern consumer demand. Within the last few years, that demand has been not only maintained but constantly and subtly increased, and in this condition lies a fundamental cause of contemporary prosperity.

Many factors have combined to sustain this over-

whelming demand for the products of quantity manufacturing. The inherent needs and desires of people are great. But the needs and desires to which the American consumer has been educated are even greater.

High-pressure distribution has been the force that has built and maintained this huge consumer demand. Today American prosperity exists through intensive selling. Let him who would destroy that foundation consider the cost of such an act of Samson upon the basic pillars of the temple of American business. Only he who wishes to destroy this temple for the sake of some principle antagonistic to it can logically persist in his attack upon present-day distribution. That there are grievous weaknesses in distribution is undoubtedly true; but that the system is a malignant growth in the industrial body, is as dangerous a diagnosis as it is a false one. Distribution needs a purgative perhaps, but it certainly does not require the surgeon's knife. A major operation may be successful as a piece of analytical technique; but its result upon the business patient can only be death.

Low prices have made goods available to the masses. Advertising has stimulated desire. Emulation, augmented by every known method of distribution, has imposed upon each family the buying standards of its neighbors. Obsolescence, through the development of the style factor, has created new sales markets for tomorrow

out of the very market that industry had satisfied yesterday. Instalment buying increased the purchasing power of the American public; high unit prices lost their terror when time payment divided the initial price into sugar-coated pills of partial payments, each of which seemed small and easy to take, but all of which, if totalled, would have represented the bitter sum of the original price.

In the existence, side by side, of these two powerful forces—high-pressure distribution and mass low-cost production—there are elements of real conflict. In that conflict exist problems of significance which industry and commerce will be called upon in the near future to solve. Undoubtedly, the factors which serve Supply best are not entirely harmonious with those which serve Demand best. And in the interest of business in general some compromises seem entirely certain.

These avenues of development offer themselves as roads which American Business is likely to follow. This decade is to be an age of merchandising in which the value of economy of production will be measured against the probable cost of disposing of that production. This is, in addition, to be an era of merger—in which industry and commerce will build themselves into giant units, with the strength of Goliaths and the resources of fabled treasure caves. And this is to be a decade or more of intense competition for consumer's loyalty—for which the busi-

ness forces will align and realign themselves into powerful groups changing their complexion with the requirements of the circumstances.

And over the horizon looms the cloud of Europe's relationship to us. Europe's bills must ultimately be paid in goods; and if the bills are to be paid, America must accept European goods as legal tender. Once America becomes a nation whose imports exceed her exports, some industrial adjustment will have to be made. And since such an import balance stands as an inevitable heritage for America's foreign trade, the form and nature of the consequent adjustment will demand careful and wise consideration.

That American business is to have its problems in the future is, however, no cause for undue alarm. American industry has faced problems before, and the effectiveness of the solution is still manifest in the present-day success of the country's business. The problems of the past have required the full force of American ingenuity. Those of the future will demand the same measure of skill.

To preach a new philosophy of self-adoration to the American business man, or to expound a new theory of economics that will give promise of everlasting American industrial supremacy, is to lull American industry into a slumber of false security. American industry will retain

its championship only so long as its condition is superb, its efforts great, and its returns superior.

There is every probability of a continued virility in the strength of American business. American industrial supremacy is based upon creation, and not upon theft from the product granaries of the other nations. American industrial supremacy like almost every other product of its industrial and commercial machine is "made in America." She has produced her own national wealth, and the dissemination of that wealth among its producers has made prosperity. She should continue, therefore, to produce that wealth and to distribute the resulting well-being through her channels of trade.

Wealth will, of course, undoubtedly create a leisure class. From its ranks the patrons of American art and letters may come. It may be even possible that government will attract some of its members. And, of course, it can be expected that some idlers will whittle away the stick of their allotted time according to their several inclinations, in useless, non-productive activity. But as long as this last group is out of step with American tradition the ranks of the actual idlers will be thin. Where social esteem for idleness is lacking, those who dawdle are discouraged by the unwelcome reception which society accords them; there is no opportunity for them to develop a cult.

If, as is so often said to us, possession of the dollar

were the "end-all" of American ambition, once ownership was consummated, the holder would spend his life protecting his treasure. In such circumstance, the successful business man would leave the active forces of business, avoid further risk and spend his life in the mere protection of his estate—in idleness.

But America is not dollar-mad in the miser's manner. It is activity-mad. It likes the game of business; and it keeps score in dollars. Its successful players win, and then risk their all once more to win again. To a considerable degree they play the game of business for the sake of play, and they measure their effort—like other sportsmen—by their success. If possession of money were the real end, America would be parsimonious, and it would also seem unlikely that the industrial leader would continue his risk when it would be so much safer to withdraw and hoard his money. So long as there is an urge for the American business man to reach the top of the industrial heap, he will experience no softness of mind, no flabbiness of body, no diminution of energy.

While industry dominates the thought of America, there need be no fears—a cataclysm aside—for the future of American business. There is nothing which indicates any change in the importance of American industrial life, and it will continue to write the most significant pages of America's history.

Utilitarian is such a reading of the life-line of America. But it must be remembered that from her palm has come the greatest physical well-being that any nation has ever been able to accord its people. And surely that is worth something.

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